



Metsimaholo Local Municipality  
Annual Financial Statements  
for the year ended 30 June 2018

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## General Information

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### Legal form of entity

Local Municipality

### Nature of business and principal activities

The main business operations of the municipality is to engage in local governance activities, which includes planning and promotion of integrated development planning, spatial development and land use management, economic and environmental development and supplying of the following services to the community: Waste Management Services (the collection, disposal and purifying of waste, refuse and sewerage); Electricity Services (electricity is bought in bulk from Eskom and sold and distributed to the consumers by the municipality); Water Services (supplying water to the consumers); and Rates and general services (all types of services rendered by the municipality, excluding the supply of housing to the community, but including the rental of units owned by the municipality to the public and staff).

### Mayoral committee

Mayoral Committee from 18 January 2018 til 30 June 2018  
Mosokweni FD  
Makhefu LA  
Malindi MJ  
Fisher L  
Semonyo LS  
Mokoena NP  
Nyaku DJ  
Poho MS

### Executive Mayor

Tshongwe SL (from 21 December 2017)

### Councillors

Mabasa KT (Speaker from 21 Decemebr 2017)  
Nyembe BV (Council Whip from 21 Decemebr 2017)  
Barnard JJ (from 1 Decemebr 2017)  
Burger GS (from 1 December 2017)  
Du Plooy A  
Du Toit T  
Dywili NN (from 10 August 2016)  
Gaigher L (late) (from 10 August 2016 till March 2018)  
Grobbelaar JJ  
Kobo SS (from 10 August 2016)  
Leotlela MG (from 1 Decemebr 2017)  
Mahlaela PM (from 1 Decemebr 2017)  
Mare AK  
Maseko ME (from 1 December 2017)  
Mofokeng TH (from 1 Decemebr 2017)  
Mohapi P (from 1 Decemebr 2017)  
Mokoena MP (from 10 August 2016)  
Mokoena TS (from 1 December 2017)  
Molawa M (from 10 August 2016) MPAC chairperson from 25 January 2018  
Motaung TA (from 10 August 2016) and MPAC chairperson from 28 September 2016 till 30 June 2017  
Motjeane S (from 10 August 2016) and Ethics chairperson from 28 September 2016 till 30 June 2017  
Mothale S (from 1 December 2017)  
Motlounng TM (from 1 December 2017)  
Mtshali NM (from 1 December 2017)  
Nhlapo LL (from 1 December 2017)  
Nkheloane M (from 1 December 2017)

# **Metsimaholo Local Municipality**

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## **General Information**

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Nnune GB

Nteso SJ (from 10 August 2016)

Taats TJ (from 1 December 2017)

Telane MM (from 10 August 2016)

Tsotetsi L (from 10 August 2016)

Van der Merwe FJ (from 1 December 2017)

Zwane ZJ (from 23 February 2017)

# Metsimaholo Local Municipality

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## General Information

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<b>Grading of local authority</b>	Metsimaholo Local Municipality is a grade 9 local authority in terms of item IV of the Government Notice R999 of 2 October 2001, published in terms of the Remuneration of Public Office Bearers Act, 1998
<b>Capacity of local authority</b>	High Capacity
<b>Municipal demarcation code</b>	FS 204
<b>Accounting Officer</b>	Molala SM Mashiane OS (acting)
<b>Chief Finance Officer (CFO)</b>	Lambat A (B.Com, B.Accounting, CA(SA))
<b>Registered office</b>	Civic Centre Fichardt Street Sasolburg 1947
<b>Business address</b>	Civic Centre Fichardt Street Sasolburg 1947
<b>Postal address</b>	PO Box 60 Sasolburg 1947
<b>Bankers</b>	The Standard Bank of South Africa Ltd ABSA Bank Ltd
<b>Auditors</b>	Auditor-General of South Africa
<b>Attorneys</b>	Adolff Attorneys Boitumelo Maubane Attorneys Lebea and Associates Attorneys Leepile & Mbewe Inc Lizel Venter Attorneys Melato Attorneys Melato - Mkhwanazi Attorneys. Molefi Thoabala Inc Attorneys Mollenaar and Griffiths Attorneys and Conveyancers Moroka Attorneys Ndobela Attorneys Ponoane Attorney, Notaries and Conveyancers Rasegoete & Associates Werksmans Inc

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

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The following supplementary information does not form part of the annual financial statements and is unaudited:

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COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
mSCOA	Municipal Standard Chart of Accounts

# **Metsimaholo Local Municipality**

Annual Financial Statements for the year ended 30 June 2018

## **Accounting Officer's Responsibilities and Approval**

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The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2019 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements set out on pages 6 to 99, which have been prepared on the going concern basis, were approved by the acting accounting officer on 31 August 2018.

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**Molala SM**

**Acting Accounting Officer Mashiane OS**

**Saturday, 30 June 2018**

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Statement of Financial Position as at 30 June 2018

	Note(s)	2018 R	2017 Restated* R
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	3	18,401,483	15,225,314
Other financial assets	4	3,261,499	3,018,504
Receivables from exchange transactions	5	196,428,617	121,133,326
Receivables from non - exchange transactions	7	89,828,194	91,405,026
Cash and cash equivalents	8	21,042,894	12,627,595
		<b>328,962,687</b>	<b>243,409,765</b>
<b>Non-Current Assets</b>			
Investment property	9	84,191,937	86,053,957
Property, plant and equipment	10	1,239,832,688	1,194,311,002
Intangible assets	11	3,484,671	4,421,285
Heritage assets	12	561,001	561,001
		<b>1,328,070,297</b>	<b>1,285,347,245</b>
<b>Total Assets</b>		<b>1,657,032,984</b>	<b>1,528,757,010</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Payables from exchange transactions	13	222,184,918	222,859,778
VAT payable	14	3,182,649	6,232,497
Finance lease obligation	15	3,257,767	2,727,836
Operating lease liability	16	2,753,122	2,361,153
Consumer deposits	17	20,993,784	19,459,196
Unspent conditional grants and receipts	18	1,672,391	7,583,751
Short term portion - long term loan	19	1,501,886	1,379,692
Employee benefit obligation	20	3,407,490	3,576,076
		<b>258,954,007</b>	<b>266,179,979</b>
<b>Non-Current Liabilities</b>			
Finance lease obligation	15	7,175,623	9,637,580
Long term portion - long term loan	19	1,634,939	3,136,825
Employee benefit obligation	20	40,725,557	37,016,968
Provisions	21	33,431,342	31,850,938
		<b>82,967,461</b>	<b>81,642,311</b>
<b>Total Liabilities</b>		<b>341,921,468</b>	<b>347,822,290</b>
<b>Net Assets</b>		<b>1,315,111,516</b>	<b>1,180,934,720</b>
Accumulated surplus		1,315,111,516	1,180,934,720

\* See Note 41

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Statement of Financial Performance

	Note(s)	2018 R	2017 Restated* R
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	22	639,185,574	533,334,444
Licences and permits		115,270	116,954
Traffic and other fines		1,898,223	17,452,476
Operational Revenue	23	8,809,008	7,112,224
Income legal cost		6,929,342	3,593,305
Interest received - investment	24	3,535,282	2,129,812
Dividends received	24	106,973	98,858
Interest income - consumers		32,954,552	25,071,512
Sale of stands		598,625	1,114,240
Fair value adjustment on other financial assets		242,994	204,724
Rehabilitation of land fill sites		-	17,767,740
Rental of facilities		6,156,372	6,068,776
<b>Total revenue from exchange transactions</b>		<b>700,532,215</b>	<b>614,065,065</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	25	134,499,406	128,980,269
<b>Transfer revenue</b>			
Transfers and subsidies	26	244,552,336	209,642,375
Public contributions and donations	27	15,883,454	10,414,953
<b>Total revenue from non-exchange transactions</b>		<b>394,935,196</b>	<b>349,037,597</b>
<b>Total revenue</b>		<b>1,095,467,411</b>	<b>963,102,662</b>
<b>Expenditure</b>			
Employee related costs	28	(262,460,492)	(244,887,772)
Remuneration of councillors	29	(9,996,810)	(15,772,177)
Depreciation and amortisation	30	(55,128,699)	(42,531,629)
Finance costs	31	(4,023,939)	(3,175,418)
Lease rentals on operating lease		(2,662,512)	(4,644,053)
Debt impairment	32	(149,391,582)	(140,049,611)
Bulk purchases	33	(338,343,506)	(324,846,542)
Contracted services	34	(77,941,467)	(68,620,109)
Transfers and subsidies		(9,000)	-
Write off of assets and liabilities		(766,193)	(1,876,969)
Provision land fill site		(1,580,404)	-
Inventories losses/write-downs		(543,063)	(43,538)
Library inventory transfer write-downs		-	(79,295)
Operating expenditure	35	(58,442,948)	(59,397,544)
<b>Total expenditure</b>		<b>(961,290,615)</b>	<b>(905,924,657)</b>
<b>Surplus for the year</b>		<b>134,176,796</b>	<b>57,178,005</b>

\* See Note 41



# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Statement of Changes in Net Assets

	Accumulated surplus R	Total net assets R
Opening balance as previously reported	1,131,109,987	1,131,109,987
Adjustments		
Prior year adjustments	(7,353,272)	(7,353,272)
<b>Balance at 01 July 2016 as restated*</b>	<b>1,123,756,715</b>	<b>1,123,756,715</b>
Changes in net assets		
Surplus for the year	57,178,005	57,178,005
Total changes	57,178,005	57,178,005
<b>Restated* Balance at 01 July 2017</b>	<b>1,180,934,720</b>	<b>1,180,934,720</b>
Changes in net assets		
Surplus for the year	134,176,796	134,176,796
Total changes	134,176,796	134,176,796
<b>Balance at 30 June 2018</b>	<b>1,315,111,516</b>	<b>1,315,111,516</b>
Note(s)		

\* See Note 41

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Cash Flow Statement

	Note(s)	2018 R	2017 Restated* R
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		584,881,012	544,923,928
Grants		244,552,336	209,642,375
Interest income		36,489,834	27,201,324
Dividends received		106,973	98,858
Other receipts		16,019,508	15,267,699
		<u>882,049,663</u>	<u>797,134,184</u>
<b>Payments</b>			
Employee costs		(266,729,949)	(257,314,143)
Suppliers		(513,511,097)	(457,508,247)
Finance costs		(4,023,939)	(3,175,418)
		<u>(784,264,985)</u>	<u>(717,997,808)</u>
<b>Net cash flows from operating activities</b>	36	<u><b>97,784,678</b></u>	<u><b>79,136,376</b></u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	10	(86,656,286)	(85,966,770)
Purchase of investment property	9	-	(412)
Purchase of intangible assets	11	-	(6,355)
Movement in other financial assets		-	1,303,696
Proceeds from sale of stands		598,625	1,114,240
<b>Net cash flows from investing activities</b>		<u><b>(86,057,661)</b></u>	<u><b>(83,555,601)</b></u>
<b>Cash flows from financing activities</b>			
Repayment of finance lease		(2,875,056)	(1,977,461)
Repayment of long term loan		(1,379,692)	(1,267,234)
Finance lease receipts		943,030	5,112,662
<b>Net cash flows from financing activities</b>		<u><b>(3,311,718)</b></u>	<u><b>1,867,967</b></u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>8,415,299</b>	<b>(2,551,258)</b>
Cash and cash equivalents at the beginning of the year		12,627,595	15,178,853
<b>Cash and cash equivalents at the end of the year</b>	8	<u><b>21,042,894</b></u>	<u><b>12,627,595</b></u>

\* See Note 41

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	746,409,600	(97,814,690)	<b>648,594,910</b>	639,185,574	<b>(9,409,336)</b>	52.1
Rental of facilities and equipment	4,818,220	1,750,000	<b>6,568,220</b>	6,156,372	<b>(411,848)</b>	
Interest income - consumers	28,295,350	5,010,290	<b>33,305,640</b>	32,954,552	<b>(351,088)</b>	52.2
Licences and permits	200,890	(100,000)	<b>100,890</b>	115,270	<b>14,380</b>	52.3
Fines	16,762,000	-	<b>16,762,000</b>	1,898,223	<b>(14,863,777)</b>	52.4
Other income	1,809,390	5,692,580	<b>7,501,970</b>	8,809,008	<b>1,307,038</b>	52.7 ;9;10
Income legal cost	5,550,740	2,200,000	<b>7,750,740</b>	6,929,342	<b>(821,398)</b>	52.5
Interest received - investment	1,000,000	400,000	<b>1,400,000</b>	3,535,282	<b>2,135,282</b>	0
Dividends received	-	-	-	106,973	<b>106,973</b>	52.19
<b>Total revenue from exchange transactions</b>	<b>804,846,190</b>	<b>(82,861,820)</b>	<b>721,984,370</b>	<b>699,690,596</b>	<b>(22,293,774)</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	129,932,010	13,335,100	<b>143,267,110</b>	134,499,406	<b>(8,767,704)</b>	52.6
<b>Transfer revenue</b>						
Government grants and subsidies	282,312,290	14,956,850	<b>297,269,140</b>	244,552,336	<b>(52,716,804)</b>	52.8
Public contributions and donations	4,974,100	-	<b>4,974,100</b>	15,883,454	<b>10,909,354</b>	51.22
Interest income on consumer rates	-	327,280	<b>327,280</b>	-	<b>(327,280)</b>	
<b>Total revenue from non-exchange transactions</b>	<b>417,218,400</b>	<b>28,619,230</b>	<b>445,837,630</b>	<b>394,935,196</b>	<b>(50,902,434)</b>	
<b>Total revenue</b>	<b>1,222,064,590</b>	<b>(54,242,590)</b>	<b>1,167,822,000</b>	<b>1,094,625,792</b>	<b>(73,196,208)</b>	
<b>Expenditure</b>						
Employee related cost	(280,823,070)	(2,921,410)	<b>(283,744,480)</b>	(262,460,492)	<b>21,283,988</b>	52.11
Remuneration of councillors	(17,412,350)	6,840,830	<b>(10,571,520)</b>	(9,996,810)	<b>574,710</b>	52.12
Depreciation and amortisation	(76,861,220)	19,725,610	<b>(57,135,610)</b>	(55,128,699)	<b>2,006,911</b>	
Finance costs	(6,059,450)	962,500	<b>(5,096,950)</b>	(4,023,939)	<b>1,073,011</b>	52.13
Lease rentals on operating lease	-	-	-	(2,662,512)	<b>(2,662,512)</b>	52.14
Debt impairment	(121,254,540)	-	<b>(121,254,540)</b>	(149,391,582)	<b>(28,137,042)</b>	52.17
Bulk purchases	(395,171,650)	40,000,000	<b>(355,171,650)</b>	(338,343,506)	<b>16,828,144</b>	52.18
Contracted services	(91,335,130)	(4,969,740)	<b>(96,304,870)</b>	(77,941,467)	<b>18,363,403</b>	52.23;24
Transfers and Subsidies	(535,000)	(700,000)	<b>(1,235,000)</b>	(9,000)	<b>1,226,000</b>	
General expenses	(77,465,900)	253,700	<b>(77,212,200)</b>	(58,442,948)	<b>18,769,252</b>	52.16;18;23;24
<b>Total expenditure</b>	<b>(1,066,918,310)</b>	<b>59,191,490</b>	<b>(1,007,726,820)</b>	<b>(958,400,955)</b>	<b>49,325,865</b>	
<b>Operating surplus</b>	<b>155,146,280</b>	<b>4,948,900</b>	<b>160,095,180</b>	<b>136,224,837</b>	<b>(23,870,343)</b>	
Loss on disposal of assets and liabilities	-	-	-	(766,193)	<b>(766,193)</b>	

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Actuarial gains/losses	(6,426,000)	-	<b>(6,426,000)</b>	(1,580,404)	<b>4,845,596</b>	
Sale of stands	2,000,000	-	<b>2,000,000</b>	598,625	<b>(1,401,375)</b>	
Loss on inventory	-	-	-	(543,063)	<b>(543,063)</b>	
Fair value adjustment on shares	-	-	-	242,994	<b>242,994</b>	
	<b>(4,426,000)</b>	-	<b>(4,426,000)</b>	<b>(2,048,041)</b>	<b>2,377,959</b>	
<b>Surplus before taxation</b>	<b>150,720,280</b>	<b>4,948,900</b>	<b>155,669,180</b>	<b>134,176,796</b>	<b>(21,492,384)</b>	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>150,720,280</b>	<b>4,948,900</b>	<b>155,669,180</b>	<b>134,176,796</b>	<b>(21,492,384)</b>	

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
	R	R	R	R	R	R	R	R	R	R	R
<b>2018</b>											
<b>Financial Performance</b>											
Property rates	129,932,010	13,335,100	143,267,110	-		143,267,110	134,499,406		(8,767,704)	94 %	104 %
Service charges	746,409,600	(97,814,690)	648,594,910	-		648,594,910	639,185,574		(9,409,336)	99 %	86 %
Investment revenue	1,000,000	1,800,000	2,800,000	-		2,800,000	3,642,255		842,255	130 %	364 %
Transfers recognised - operational	149,184,190	4,600,000	153,784,190	-		153,784,190	150,550,684		(3,233,506)	98 %	101 %
Other own revenue	62,410,690	8,506,050	70,916,740	-		70,916,740	57,461,392		(13,455,348)	81 %	92 %
<b>Total revenue (excluding capital transfers and contributions)</b>	<b>1,088,936,490</b>	<b>(69,573,540)</b>	<b>1,019,362,950</b>	<b>-</b>		<b>1,019,362,950</b>	<b>985,339,311</b>		<b>(34,023,639)</b>	<b>97 %</b>	<b>90 %</b>
Employee costs	(280,823,070)	(2,921,410)	(283,744,480)	-	-	(283,744,480)	(262,460,492)	-	21,283,988	92 %	93 %
Remuneration of councillors	(17,412,350)	6,840,830	(10,571,520)	-	-	(10,571,520)	(9,996,810)	-	574,710	95 %	57 %
Debt impairment	(121,254,540)	-	(121,254,540)			(121,254,540)	(149,391,582)	-	(28,137,042)	123 %	123 %
Depreciation and asset impairment	(76,861,220)	19,725,610	(57,135,610)			(57,135,610)	(55,128,699)	-	2,006,911	96 %	72 %
Finance charges	(6,059,450)	962,500	(5,096,950)	-	-	(5,096,950)	(4,023,939)	-	1,073,011	79 %	66 %
Materials and bulk purchases	(395,171,650)	40,000,000	(355,171,650)	-	-	(355,171,650)	(338,343,506)	-	16,828,144	95 %	86 %
Transfers and grants	(535,000)	(700,000)	(1,235,000)	-	-	(1,235,000)	(9,000)	-	1,226,000	1 %	2 %
Other expenditure	(175,227,030)	(4,716,040)	(179,943,070)	-	-	(179,943,070)	(141,393,524)	-	38,549,546	79 %	81 %
<b>Total expenditure</b>	<b>(1,073,344,310)</b>	<b>59,191,490</b>	<b>(1,014,152,820)</b>	<b>-</b>	<b>-</b>	<b>(1,014,152,820)</b>	<b>(960,747,552)</b>	<b>-</b>	<b>53,405,268</b>	<b>95 %</b>	<b>90 %</b>
<b>Surplus/(Deficit)</b>	<b>15,592,180</b>	<b>(10,382,050)</b>	<b>5,210,130</b>	<b>-</b>		<b>5,210,130</b>	<b>24,591,759</b>		<b>19,381,629</b>	<b>472 %</b>	<b>158 %</b>

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
	R	R	R	R	R	R	R	R	R	R	R
Transfers recognised - capital	133,128,100	10,356,850	143,484,950	-		143,484,950	94,001,652		(49,483,298)	66 %	71 %
Contributions recognised - capital and contributed assets	-	4,974,100	4,974,100	-		4,974,100	15,883,454		10,909,354	319 %	DIV/0 %
<b>Surplus (Deficit) after capital transfers and contributions</b>	<b>148,720,280</b>	<b>4,948,900</b>	<b>153,669,180</b>	<b>-</b>		<b>153,669,180</b>	<b>134,476,865</b>		<b>(19,192,315)</b>	<b>88 %</b>	<b>90 %</b>
Share of surplus (deficit) of associate	-	-	-	-		-	(543,063)		(543,063)	DIV/0 %	DIV/0 %
Taxation	-	-	-	-		-	204,724		204,724	DIV/0 %	DIV/0 %
Attributable to minorities	-	-	-	-		-	17,767,740		17,767,740	DIV/0 %	DIV/0 %
<b>Surplus/(Deficit) for the year</b>	<b>148,720,280</b>	<b>4,948,900</b>	<b>153,669,180</b>	<b>-</b>		<b>153,669,180</b>	<b>151,906,266</b>		<b>(1,762,914)</b>	<b>99 %</b>	<b>102 %</b>

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
	R	R	R	R	R	R	R	R	R	R	R
<b>Capital expenditure and funding sources</b>											
Total capital expenditure	166,156,060	4,589,730	170,745,790	-		170,745,790	(116,877,452)		(287,623,242)	(68)%	(70)%
<b>Sources of capital funds</b>											
Transfers recognised - capital	133,128,100	10,356,850	143,484,950	-		143,484,950	-		(143,484,950)	- %	- %
Public contributions and donations	-	4,974,100	4,974,100	-		4,974,100	-		(4,974,100)	- %	DIV/0 %
Borrowing	3,130,000	3,989,720	7,119,720	-		7,119,720	-		(7,119,720)	- %	- %
Internally generated funds	29,897,960	(14,730,940)	15,167,020	-		15,167,020	-		(15,167,020)	- %	- %
<b>Total sources of capital funds</b>	<b>166,156,060</b>	<b>4,589,730</b>	<b>170,745,790</b>	<b>-</b>		<b>170,745,790</b>	<b>-</b>		<b>(170,745,790)</b>	<b>- %</b>	<b>- %</b>

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand. All figures are rounded to the nearest Rand. The municipality implemented the municipal standard chart of accounts (mSCOA) for the first time in the 2017-2018 financial year. This resulted in certain reclassifications as disclosed in the relevant note.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies are disclosed below.

These accounting policies are consistent with the previous period.

#### 1.1 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

#### 1.2 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

##### Receivables

The municipality assesses its receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a receivable.

The impairment for receivables is calculated on a portfolio basis. For amounts due to the municipality, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and default of payments are all considered indicators of impairment.

##### Allowance for slow moving, damaged and obsolete inventory

An assessment is made of net realisable value at the end of each reporting period. Any write down of inventory to the lower of cost or net realisable value is subsequently provided. Management has made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the surplus or deficit.

##### Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.



# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.2 Significant judgements and sources of estimation uncertainty (continued)

#### Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the discounted cashflow projection assumption may change which may then impact on the estimations and may then require a material adjustment to the carrying value of tangible assets.

Value in use of cash generating assets:

The municipality reviews and tests the carrying value of cash-generating assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including economic factors such as inflation and interest.

Value in use of non - cash generating assets:

The municipality reviews and tests the carrying value of non-cash generating assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. If there are indications that impairment may have occurred, the remaining service potential of the asset is determined. The most appropriate approach selected to determine the remaining service potential is dependent on the availability of data and the nature of the impairment.

#### Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 21 - Provisions.

#### Useful lives of property, plant and equipment and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for property, plant and equipment and other assets. This estimate is based on industry norms and on the pattern in which an asset's future economic benefits or service potential is expected to be consumed by the municipality. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives and decrease depreciation charge where useful lives are more than previously estimated useful lives.

#### Post-retirement benefits and other long-term benefits

The present value of the post retirement and other long-term employee obligations depend on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net long-term benefit include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the post retirement and long-term benefit obligations. In determining the appropriate discount rate, the municipality considers market yields at the reporting date on government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension or other long-term liability. Where there is no market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, the municipality uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

Other key assumptions for post-retirement and other long-term employee obligations are based on current market conditions. Additional information is disclosed in note 20.

#### Effective interest rate

The municipality used the prime rate to discount future cash flows.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.2 Significant judgements and sources of estimation uncertainty (continued)

#### Allowance for impairment

On receivables an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the receivables carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

### 1.3 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services; or for
- administrative purposes; or
- sale in the ordinary course of operations.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that is associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

#### Cost model

Investment property is, subsequent to initial measurement, carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal instalments over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite
Property - buildings	50 years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, including the nature or type of properties classified as held for strategic purposes, are as follows:

- When property is held for the production or supply of goods or services or for administrative purposes it is accounted for as property plant and equipment in accordance with GRAP 17.
- For sale in the ordinary course of operations it is accounted for as inventory in accordance with GRAP 12.

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note 8).

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost or fair value of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value is not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement part is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the municipality is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Subsequent to initial measurement Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value. The depreciation charge is recognised in surplus or deficit.

The useful lives of items of property, plant and equipment have been assessed as follows:

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Item	Depreciation method	Average useful life
Community assets	Straight line	50 years
Furniture and office equipment	Straight line	3 - 30 years
Infrastructure	Straight line	5 - 50 years
Land		Indefinite
Motor vehicles	Straight line	3 - 20 years
IT equipment	Straight line	3 - 10 years
Plant and machinery	Straight line	3 - 15 years

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# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.4 Property, plant and equipment (continued)

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimates and errors.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 10).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 10).

Compensation from third parties for an item of PPE that was impaired, lost or given up is recognised in surplus/deficit.

### 1.5 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore certain items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment include the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation which the municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

The related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

### 1.6 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from the municipality and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the municipality intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Intangible assets are initially measured at cost.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.6 Intangible assets (continued)

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Subsequent to initial measurement Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset. The amortisation charge for each period is recognised in surplus or deficit.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software	5 years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an intangible assets is the difference between the net disposal proceeds and the carrying amount and is included in surplus or deficit when the asset is derecognised.

### 1.7 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

The municipality separately discloses expenditure to repair and maintain heritage assets in the notes to the financial statements (see note 11).

#### Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

When the municipality holds a heritage asset, but on initial recognition it does not meet the recognition criteria because it cannot be reliably measured, information on such a heritage asset is disclosed in note 12 - Heritage assets.

#### Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

#### Subsequent measurement

Subsequent to initial measurement classes of heritage assets are carried at cost less any accumulated impairment losses.

#### Impairment

The municipality assesses at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.7 Heritage assets (continued)

#### Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

#### Derecognition

The municipality derecognises heritage assets on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is the difference between the net disposal proceeds and the carrying amount and is included in surplus or deficit when the item is derecognised.

### 1.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one municipality and a financial liability or a residual interest of another municipality.

#### Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

##### Class

Receivables from exchange transactions  
Receivables from non-exchange transactions  
Cash and cash equivalents  
Other financial asset

##### Category

Financial asset measured at amortised cost  
Financial asset measured at amortised cost  
Financial asset measured at amortised cost  
Financial asset measured at fair value

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

##### Class

Finance lease obligation  
Payables from exchange transactions  
Consumer deposits  
Operating lease  
Long term loan  
Unspent conditional grants

##### Category

Financial liability measured at amortised cost  
Financial liability measured at amortised cost  
Financial liability measured at amortised cost  
Financial liability measured at amortised cost  
Financial liability measured at amortised cost  
Financial liability measured at amortised cost

#### Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the municipality becomes a party to the contractual provisions of the instrument.

The municipality recognises financial assets using trade date accounting.

#### Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.8 Financial instruments (continued)

#### Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

#### Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the municipality uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, the municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

Short-term receivables and payables are not discounted where the initial credit period granted or received is consistent with terms used in the public sector, either through established practices or legislation.

#### Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

#### Impairment and uncollectibility of financial assets

The municipality assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.8 Financial instruments (continued)

#### Derecognition

##### Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality:
  - derecognises the asset; and
  - recognises separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

##### Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another municipality by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

### 1.9 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for:

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.



# **Metsimaholo Local Municipality**

Annual Financial Statements for the year ended 30 June 2018

## **Accounting Policies**

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### **1.9 Inventories (continued)**

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amount of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.10 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

Management use their discretion in acquiring and managing assets of the municipality. Where assets are used primarily with the intention of generating a commercial return and generating cash flows managed for cash-generating purposes the assets are treated as cash-generating assets.

#### Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset is initially recognised during the current reporting period, that intangible asset is tested for impairment before the end of the current reporting period.

#### Value in use

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

#### Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

#### Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

#### Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality uses management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.10 Impairment of cash-generating assets (continued)

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the municipality does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

### Reversal of impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

### Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.11 Impairment of non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

Criteria developed by the municipality to distinguish non-cash-generating assets from cash-generating assets are as follow: Management use their discretion in acquiring and managing assets of the municipality. Where assets are used primarily with the intention of service delivery and generating cash flows managed for non-cash-generating purposes the assets are treated as non - cash generating assets.

#### Identification

When the carrying amount of a non - cash generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

#### Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

#### Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the current reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

#### Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

# **Metsimaholo Local Municipality**

Annual Financial Statements for the year ended 30 June 2018

## **Accounting Policies**

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### **1.11 Impairment of non-cash-generating assets (continued)**

#### **Reversal of an impairment loss**

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

#### **Redesignation**

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

### **1.12 Value-added Tax (VAT)**

The municipality is registered with the South African Revenue Services (SARS) for VAT on the payments basis, in accordance with Section 15(2) of the VAT Act (Act No. 89 of 1991).

### **1.13 Accumulated surplus**

The accumulated surplus represents the net difference between the total assets and the total liabilities of the municipality. Any surpluses and deficits realised during a specific financial year are credited/debited against accumulated surplus/deficit. Prior year adjustments, relating to income and expenditure, are debited/credited against accumulated surplus when retrospective adjustments are made.

### **1.14 Share capital / contributed capital**

An equity instrument is any contract that evidences a residual interest in the assets of the municipality after deducting all of its liabilities.

### **1.15 Leases**

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the municipality assesses the classification of each element separately.

# **Metsimaholo Local Municipality**

Annual Financial Statements for the year ended 30 June 2018

## **Accounting Policies**

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### **1.15 Leases (continued)**

#### **Finance leases - lessee**

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

#### **Operating leases - lessor**

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in the statement of financial performance.

#### **Operating leases - lessee**

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Any contingent rents are expensed in the period in which they are incurred.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.16 Employee benefits

#### Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cell phones) for current employees.

When an employee has rendered a service to the municipality during a reporting period, the municipality recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measures the expected cost of accumulating compensated absences as the additional amount that the municipality expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The municipality recognises the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the municipality has no realistic alternative but to make the payments.

#### Multi-employer plans and/or State plans and/or Composite social security programmes

The municipality classifies a multi-employer plan and/or state plans and/or composite social security programmes as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).

Where a plan is a defined contribution plan, the municipality accounts for it in the same way as for any other defined contribution plan.

Where a plan is a defined benefit plan, the municipality accounts for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan.

When sufficient information is not available to use defined benefit accounting for a plan, that is a defined benefit plan, the municipality accounts for the plan as if it was a defined contribution plan.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.16 Employee benefits (continued)

#### Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered services to the municipality during a reporting period, the municipality recognises the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, the municipality recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money are consistent with the currency and estimated term of the obligation.



# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.16 Employee benefits (continued)

#### Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the municipality recognises actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- actuarial gains and losses;
- past service cost;

The municipality uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The municipality recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.16 Employee benefits (continued)

#### Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
  - those changes were enacted before the reporting date; or
  - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

#### Other long-term employee benefits

The municipality has an obligation to provide long-term service allowance benefits to all of its employees.

The municipality's liability is based on an actuarial valuation. The Projected Unit Credit Method is used to determine the present value of the obligations.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The municipality recognises the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- actuarial gains and losses.

### 1.17 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.17 Provisions and contingencies (continued)

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus (deficit).

If the municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality.

A contingent liability is a:

- possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality; or
- present obligation that arises from past events but is not recognised because:
  - it is not probable than an outflow of resources embodying economic benefits or service potential will be required to settle the obligation;
  - the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 39.

### Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, are accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the municipality tests the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.10 and 1.11.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability are recognised in surplus or deficit as they occur.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

### 1.18 Revenue from exchange transactions

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.18 Revenue from exchange transactions (continued)

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

#### Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

#### Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by surveys of work performed.

#### Interest and dividends

Revenue arising from the use by others of municipal assets yielding interest, royalties and dividends or similar distributions is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

### 1.19 Revenue from non-exchange transactions

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, the municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.19 Revenue from non-exchange transactions (continued)

#### Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

#### Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

#### Property rates

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

#### Transfers

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

#### Debt forgiveness and assumption of liabilities

The municipality recognises revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.19 Revenue from non-exchange transactions (continued)

#### Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality. The municipality makes use of estimates to determine the amount of revenue that it is entitled to collect. Where settlement discounts or reductions in the amount payable are offered, the municipality considers past history in assessing the likelihood of these discounts or reductions being taken up by receivables.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting municipality.

#### Gifts and donations, including goods in-kind

Gifts and donations, including goods in-kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

#### Services in-kind

Services in-kind that are significant to the municipality's operations and/or service delivery objectives are recognised as assets and the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality discloses the nature and type of services in-kind received during the reporting period.

### 1.20 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

### 1.21 Borrowing costs

Borrowing costs are interest and other expenses incurred by the municipality in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

### 1.22 Grant in aid

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:

- receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- expect to be repaid in future; or
- expect a financial return, as would be expected from an investment.

These transfers are recognised in the statement of financial performance as expenses in the period that the events giving rise to the transfer occurred.

### 1.23 Commitments

Items are classified as commitments when the municipality has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation are disclosed in a note to the financial statements, if both the following criteria are met:

- contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- contracts should relate to something other than the routine, steady, state business of the municipality – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.24 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year. These reclassifications were done in line with the implementation of the municipal standard chart of accounts (mSCOA). Refer to note 41 for detail.

### 1.25 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.26 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.27 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the municipality's supply chain management policy.

Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the statement of financial performance and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.28 Budget information

The approved budget is prepared on an accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2017/07/01 to 2018/06/30.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

### 1.29 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

# **Metsimaholo Local Municipality**

Annual Financial Statements for the year ended 30 June 2018

## **Accounting Policies**

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### **1.30 Events after reporting date**

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality adjusts the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality discloses the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.



# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

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### 2. New standards and interpretations

#### 2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2018 or later periods:

##### **GRAP 34: Separate Financial Statements**

The objective of this Standard is to prescribe the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements.

It furthermore covers Definitions, Preparation of separate financial statements, Disclosure, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

##### **GRAP 35: Consolidated Financial Statements**

The objective of this Standard is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

To meet this objective, the Standard:

- requires an entity (the controlling entity) that controls one or more other entities (controlled entities) to present consolidated financial statements;
- defines the principle of control, and establishes control as the basis for consolidation;
- sets out how to apply the principle of control to identify whether an entity controls another entity and therefore must consolidate that entity;
- sets out the accounting requirements for the preparation of consolidated financial statements; and
- defines an investment entity and sets out an exception to consolidating particular controlled entities of an investment entity.

It furthermore covers Definitions, Control, Accounting requirements, Investment entities: Fair value requirement, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

##### **GRAP 36: Investments in Associates and Joint Ventures**

The objective of this Standard is to prescribe the accounting for investments in associates and joint ventures and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

It furthermore covers Definitions, Significant influence, Equity method, Application of the equity method, Separate financial statements, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

##### **GRAP 37: Joint Arrangements**

The objective of this Standard is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e. joint arrangements).

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## 2. New standards and interpretations (continued)

To meet this objective, the Standard defines joint control and requires an entity that is a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and to account for those rights and obligations in accordance with that type of joint arrangement.

It furthermore covers Definitions, Joint arrangements, Financial statements and parties to a joint arrangement, Separate financial statements, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

### GRAP 38: Disclosure of Interests in Other Entities

The objective of this Standard is to require an entity to disclose information that enables users of its financial statements to evaluate:

- the nature of, and risks associated with, its interests in controlled entities, unconsolidated controlled entities, joint arrangements and associates, and structured entities that are not consolidated; and
- the effects of those interests on its financial position, financial performance and cash flows.

It furthermore covers Definitions, Disclosing information about interests in other entities, Significant judgements and assumptions, Investment entity status, Interests in controlled entities, Interests in joint arrangements and associates, Interests in structured entities that are not consolidated, Non-qualitative ownership interests, Controlling interests acquired with the intention of disposal, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

### Guideline: Accounting for Arrangements Undertaken i.t.o the National Housing Programme

The objective of this guideline: Entities in the public sector are frequently involved in the construction of houses as part of government's housing policy, implemented through the national housing programme, which is aimed at developing sustainable human settlements. The Housing Act, Act No. 107 of 1997 provides information about the housing programmes that fall within the scope of the national housing programme. Concerns were raised by preparers about the inconsistent accounting applied to housing arrangements undertaken by entities under the national housing programme. Different accounting may be appropriate where there are differences between the terms and conditions of arrangements concluded by entities. However, under housing arrangements that are undertaken in terms of the national housing programme, there are common features and issues that need to be considered. As a result, the Accounting Standards Board agreed to develop high-level guidance for arrangements undertaken in terms of the national housing programme.

It covers: Background to arrangements undertaken in terms of the national housing programme, Transactions that affect the accounting of housing arrangements, Consider whether the municipality undertakes transactions with third parties on behalf of another party, Accounting by municipalities appointed as project manager, Disclosure requirements, Accounting by municipalities appointed as project developer, Accounting for the accreditation fee, commission, administration or transaction fee received, Land and infrastructure, Conclusion and Application of this Guideline to existing arrangements.

The effective date of the guideline is not yet set by the Minister of Finance.

The municipality expects to adopt the guideline for the first time when the Minister sets the effective date for the guideline.

It is unlikely that the guideline will have a material impact on the municipality's annual financial statements.

### GRAP 110 (as amended 2016): Living and Non-living Resources

Amendments to the Standard of GRAP on Living and Non-living Resources resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 17 on Property, Plant and Equipment (IPSAS 17) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015 and Improvements to IPSASs 2015 issued in March 2016.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

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### 2. New standards and interpretations (continued)

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23; and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets
- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when a living resource is revalued; To clarify acceptable methods of depreciating assets; and To define a bearer plant and include bearer plants within the scope of GRAP 17 or GRAP 110, while the produce growing on bearer plants will remain within the scope of GRAP 27

The effective date of the amendment is for years beginning on or after 01 April 2020.

The municipality expects to adopt the amendment for the first time in the 2021 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

#### GRAP 18 (as amended 2016): Segment Reporting

Amendments to the Standard of GRAP on Segment Reporting resulted from editorial and other changes to the original text have been made to ensure consistency with other Standards of GRAP.

The most significant changes to the Standard are:

- General improvements: An appendix with illustrative segment disclosures has been deleted from the Standard as the National Treasury has issued complete examples as part of its implementation guidance.

The effective date of the amendment is for years beginning on or after 01 April 2019

The municipality expects to adopt the standard for the first time in the 2020 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

#### GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

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### 2. New standards and interpretations (continued)

- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is for years beginning on or after 01 April 2019.

The municipality expects to adopt the standard for the first time in the 2020 annual financial statements.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

### GRAP 32: Service Concession Arrangements: Grantor

The objective of this Standard is: to prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

It furthermore covers: Definitions, recognition and measurement of a service concession asset, recognition and measurement of liabilities, other liabilities, contingent liabilities, and contingent assets, other revenues, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the amendment is for years beginning on or after 01 April 2019.

The municipality expects to adopt the standard for the first time in the 2020 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

### GRAP 108: Statutory Receivables

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

# Metsimaholo Local Municipality

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### 2. New standards and interpretations (continued)

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the amendment is for years beginning on or after 01 April 2019.

The municipality expects to adopt the standard for the first time in the 2020 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

#### GRAP 109: Accounting by Principals and Agents

The objective of this Standard is to outline principles to be used by an entity to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement. The Standard does not introduce new recognition or measurement requirements for revenue, expenses, assets and/or liabilities that result from principal-agent arrangements. The Standard does however provide guidance on whether revenue, expenses, assets and/or liabilities should be recognised by an agent or a principal, as well as prescribe what information should be disclosed when an entity is a principal or an agent.

It furthermore covers definitions, identifying whether an entity is a principal or agent, accounting by a principal or agent, presentation, disclosure, transitional provisions and effective date.

The effective date of the standard is for years beginning on or after 01 April 2019.

The municipality expects to adopt the standard for the first time in the 2020 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

#### IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset

This Interpretation of the Standards of GRAP provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease. This Interpretation of the Standards of GRAP shall not be applied by analogy to other types of transactions or arrangements.

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

Before the grantor can recognise a service concession asset in accordance with the Standard of GRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this Interpretation of the Standards of GRAP need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

A consensus is reached, in this Interpretation of the Standards of GRAP, on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

The effective date of the interpretation is for years beginning on or after 01 April 2019.

The municipality expects to adopt the interpretation for the first time in the 2020 annual financial statements.

It is unlikely that the interpretation will have a material impact on the municipality's annual financial statements.

#### IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

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### 2. New standards and interpretations (continued)

This Interpretation of the Standards of GRAP applies to the initial recognition and derecognition of land in an entity's financial statements. It also considers joint control of land by more than one entity.

When an entity concludes that it controls the land after applying the principles in this Interpretation of the Standards of GRAP, it applies the applicable Standard of GRAP, i.e. the Standard of GRAP on Inventories, Investment Property (GRAP 16), Property, Plant and Equipment (GRAP 17) or Heritage Assets. As this Interpretation of the Standards of GRAP does not apply to the classification, initial and subsequent measurement, presentation and disclosure requirements of land, the entity applies the applicable Standard of GRAP to account for the land once control of the land has been determined. An entity also applies the applicable Standards of GRAP to the derecognition of land when it concludes that it does not control the land after applying the principles in this Interpretation of the Standards of GRAP.

In accordance with the principles in the Standards of GRAP, buildings and other structures on the land are accounted for separately. These assets are accounted for separately as the future economic benefits or service potential embodied in the land differs from those included in buildings and other structures. The recognition and derecognition of buildings and other structures are not addressed in this Interpretation of the Standards of GRAP.

The effective date of the interpretation is for years beginning on or after 01 April 2019.

The municipality expects to adopt the interpretation for the first time in the 2020 annual financial statements.

The impact of this interpretation is currently being assessed.

### IGRAP 19: Liabilities to Pay Levies

This Interpretation of the Standards of GRAP provides guidance on the accounting for levies in the financial statements of the entity that is paying the levy. It clarifies when entities need to recognise a liability to pay a levy that is accounted for in accordance with GRAP 19.

To clarify the accounting for a liability to pay a levy, this Interpretation of the Standards of GRAP addresses the following issues:

- What is the obligating event that gives rise to the recognition of a liability to pay a levy?
- Does economic compulsion to continue to operate in a future period create a constructive obligation to pay a levy that will be triggered by operating in that future period?
- Does the going concern assumption imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period?
- Does the recognition of a liability to pay a levy arise at a point in time or does it, in some circumstances, arise progressively over time?
- What is the obligating event that gives rise to the recognition of a liability to pay a levy that is triggered if a minimum threshold is reached?

Consensus reached in this interpretation:

- The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation;
- An entity does not have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate in that future period;
- The preparation of financial statements under the going concern assumption does not imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period;
- The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time;
- If an obligation to pay a levy is triggered when a minimum threshold is reached, the accounting for the liability that arises from that obligation shall be consistent with the principles established in this Interpretation of the Standards of GRAP; and
- An entity shall recognise an asset, in accordance with the relevant Standard of GRAP, if it has prepaid a levy but does not yet have a present obligation to pay that levy.

The effective date of the interpretation is for years beginning on or after 01 April 2019.

The municipality expects to adopt the interpretation for the first time in the 2020 annual financial statements

It is unlikely that the interpretation will have a material impact on the municipality's annual financial statements.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

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### 2. New standards and interpretations (continued)

#### GRAP 12 (as amended 2016): Inventories

Amendments to the Standard of GRAP on Inventories resulted from inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 12 on Inventories (IPSAS 12) as a result of the IPSASB's Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:

- General improvements: to clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12)
- IPSASB amendments: to align terminology in GRAP 12 with that in IPSAS 12. The term "ammunition" in IPSAS 12 was replaced with the term "military inventories" and provides a description of what it comprises in accordance with Government Finance Statistics terminology

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality expects to adopt the amendment for the first time in the 2019 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

#### GRAP 16 (as amended 2016): Investment Property

Amendments to the Standard of GRAP on Investment Property resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IAS 40 on Investment Property (IAS 40) as a result of the IASB's amendments on Annual Improvements to IFRSs 2011 – 2013 Cycle issued in December 2013.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets.
- IASB amendments: To clarify the interrelationship between the Standards of GRAP on Transfer of Functions Between Entities Not Under Common Control and Investment Property when classifying investment property or owner-occupied property.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality expects to adopt the amendment for the first time in the 2019 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

#### GRAP 17 (as amended 2016): Property, Plant and Equipment

Amendments to the Standard of GRAP on Property, Plant and Equipment resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 17 on Property, Plant and Equipment (IPSAS 17) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015 and Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:

- General improvements: to clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and to clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

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### 2. New standards and interpretations (continued)

- IPSASB amendments: to clarify the revaluation methodology of the carrying amount and accumulated depreciation when an item of property, plant, and equipment is revalued; to clarify acceptable methods of depreciating assets; to align terminology in GRAP 17 with that in IPSAS 17. The term "specialist military equipment" in IPSAS 17 was replaced with the term "weapon systems" and provides a description of what it comprises in accordance with Government Finance Statistics terminology; and to define a bearer plant and include bearer plants within the scope of GRAP 17, while the produce growing on bearer plants will remain within the scope of GRAP 27.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality expects to adopt the amendment for the first time in the 2019 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

#### GRAP 21 (as amended 2016): Impairment of non-cash-generating assets

Amendments to the Standard of GRAP on Impairment of Non-cash Generating Assets resulted from changes made to IPSAS 21 on Impairment of Non-Cash-Generating Assets (IPSAS 21) as a result of the IPSASB's Impairment of Revalued Assets issued in March 2016.

The most significant changes to the Standard are:

- IPSASB amendments: to update the basis of conclusions and comparison with IPSASs to reflect the IPSASB's recent decision on the impairment of revalued assets.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality expects to adopt the amendment for the first time in the 2019 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

#### GRAP 26 (as amended 2016): Impairment of cash-generating assets

Amendments Changes to the Standard of GRAP on Impairment of Cash Generating Assets resulted from changes made to IPSAS 26 on Impairment of Cash-Generating Assets (IPSAS 26) as a result of the IPSASB's Impairment of Revalued Assets issued in March 2016.

The most significant changes to the Standard are:

- IPSASB amendments: to update the basis of conclusions and Comparison with IPSASs to reflect the IPSASB's recent decision on the impairment of revalued assets.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality expects to adopt the amendment for the first time in the 2019 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

#### GRAP 27 (as amended 2016): Agriculture

Amendments to the Standard of GRAP on Agriculture resulted from changes made to IPSAS 27 on Agriculture (IPSAS 27) as a result of the IPSASB's Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:

- IPSASB amendments: To define a bearer plant and include bearer plants within the scope of GRAP 17, while the produce growing on bearer plants will remain within the scope of GRAP 27. In addition to the changes made by the IPSASB, a consequential amendment has been made to GRAP 103 on Heritage Assets. The IPSASB currently does not have a pronouncement on this topic.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality expects to adopt the amendment for the first time in the 2019 annual financial statements.



# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
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### 2. New standards and interpretations (continued)

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

#### GRAP 31 (as amended 2016): Intangible Assets

Amendments to the Standard of GRAP on Intangible Assets resulted from inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 31 on Intangible Assets (IPSAS 31) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015.

The most significant changes to the Standard are:

- General improvements: to add the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets
- IPSASB amendments: to clarify the revaluation methodology of the carrying amount and accumulated depreciation when an item of intangible assets is revalued; and To clarify acceptable methods of depreciating assets

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality expects to adopt the amendment for the first time in the 2019 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

#### GRAP 103 (as amended 2016): Heritage Assets

Amendments to the Standard of GRAP on Heritage Assets resulted from inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from editorial changes to the original text.

The most significant changes to the Standard are:

- General improvements: to clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality expects to adopt the amendment for the first time in the 2019 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>3. Inventories</b>		
Water (purified water in reservoirs and pipes)	553,639	495,836
Housing Stock	17,000,843	13,164,043
Fuel (diesel, petrol)	52,144	366,667
Stores and materials	794,857	1,198,768
	<b>18,401,483</b>	<b>15,225,314</b>

2018: After the inventory count, an amount of R 458 063 was written off.

2017: After the inventory count, an amount of R 43 538 was written off.

### 3.1 Movement of housing stock

Opening balance	13,164,043	13,635,043
Additional stands transfer to housing stock	3,921,800	-
Register in name of owner and remove from housing stock	(85,000)	(471,000)
	<b>17,000,843</b>	<b>13,164,043</b>

Inventories recognised as an expense during the year	1,354,389	2,069,495
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### Inventory pledged as security

During the year no inventory was pledged as security.

### 4. Other financial assets

#### At fair value

Listed shares	3,230,858	2,987,863
2018: 46 109 @ R70.07		
2017: 46 109 @ R64.80		

#### At amortised cost

Investment - ceded	30,641	30,641
<b>Total other financial assets</b>	<b>3,261,499</b>	<b>3,018,504</b>

#### Current assets

At fair value	3,230,858	2,987,863
At amortised cost	30,641	30,641
	<b>3,261,499</b>	<b>3,018,504</b>

### Financial assets at fair value

#### Fair value hierarchy of financial assets at fair value

Level 1 represents those assets which are measured using unadjusted quoted prices in active markets for identical assets. The municipality received the shares historical from SANLAM.

#### Level 1

Sanlam Shares	3,230,858	2,987,863
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# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>5. Receivables from exchange transactions</b>		
<b>Gross balances</b>		
Electricity	88,401,212	69,746,271
Water	751,904,585	600,472,308
Sewerage	45,409,737	38,785,751
Refuse	63,491,152	53,945,857
	<b>949,206,686</b>	<b>762,950,187</b>
<b>Less: Allowance for impairment</b>		
Electricity	(39,824,290)	(42,126,623)
Water	(623,282,933)	(523,051,031)
Sewerage	(36,726,459)	(31,688,648)
Refuse	(52,944,387)	(44,950,559)
	<b>(752,778,069)</b>	<b>(641,816,861)</b>
<b>Net balance</b>		
Electricity	48,576,922	27,619,648
Water	128,621,652	77,421,277
Sewerage	8,683,278	7,097,103
Refuse	10,546,765	8,995,298
	<b>196,428,617</b>	<b>121,133,326</b>
<b>Electricity</b>		
Current (0 -30 days)	17,401,861	14,680,927
31 - 60 days	4,860,350	7,403,996
61 - 90 days	3,870,288	3,502,911
91 > days	62,268,713	44,158,437
Allowance for impairment	(39,824,290)	(42,126,623)
	<b>48,576,922</b>	<b>27,619,648</b>
<b>Water</b>		
Current (0 -30 days)	49,551,879	25,827,113
31 - 60 days	20,287,094	17,909,637
61 - 90 days	15,434,245	13,556,462
> 91 days	666,631,367	543,179,097
Allowance for impairment	(623,282,933)	(523,051,032)
	<b>128,621,652</b>	<b>77,421,277</b>
<b>Sewerage</b>		
Current (0 -30 days)	2,194,843	1,931,584
31 - 60 days	1,369,869	1,215,947
61 - 90 days	950,684	864,552
> 91 days	40,894,341	34,773,667
Allowance for impairment	(36,726,459)	(31,688,647)
	<b>8,683,278</b>	<b>7,097,103</b>
<b>Refuse</b>		
Current (0 -30 days)	2,537,476	2,515,665
31 - 60 days	1,669,432	1,659,297
61 - 90 days	1,321,535	1,321,492
> 91 days	57,962,709	48,449,403
Allowance for impairment	(52,944,387)	(44,950,559)
	<b>10,546,765</b>	<b>8,995,298</b>

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>5. Receivables from exchange transactions (continued)</b>		
<b>Summary of debtors by customer classification</b>		
<b>Consumers</b>		
Current (0 -30 days)	55,929,488	29,606,228
31 - 60 days	21,911,631	19,280,480
61 - 90 days	16,763,712	15,977,327
> 91 days	756,072,621	603,590,383
	<b>850,677,452</b>	<b>668,454,418</b>
<b>Industrial/commercial</b>		
Current (0 -30 days)	13,216,507	13,032,644
31 - 60 days	4,591,929	6,157,745
61 - 90 days	2,887,277	1,804,619
91 > days	52,785,716	52,652,207
	<b>73,481,429</b>	<b>73,647,215</b>
<b>National and provincial government</b>		
Current (0 -30 days)	2,540,064	2,316,417
31 - 60 days	1,683,185	2,750,652
61 - 90 days	1,925,763	1,463,471
> 91 days	18,898,793	14,318,014
	<b>25,047,805</b>	<b>20,848,554</b>
<b>Total</b>		
Current (0 -30 days)	71,686,059	44,955,289
31 - 60 days	28,186,745	28,188,877
61 - 90 days	21,576,752	19,245,417
> 91 days	827,757,130	670,560,604
	949,206,686	762,950,187
Less: Allowance for impairment	(752,778,069)	(641,816,861)
	<b>196,428,617</b>	<b>121,133,326</b>
<b>Less: Allowance for impairment</b>		
Current (0 -30 days)	(14,659,832)	(12,708,249)
31 - 60 days	(15,807,405)	(14,410,421)
61 - 90 days	(15,365,045)	(12,978,749)
> 91 days	(706,945,787)	(601,719,442)
	<b>(752,778,069)</b>	<b>(641,816,861)</b>
<b>Total debtor past due but not impaired</b>		
Current (0 -30 days)	57,026,227	32,247,040
31 - 60 days	12,379,340	13,778,456
61 - 90 days	6,211,707	6,266,668
> 91 days	120,811,343	68,841,162
	<b>196,428,617</b>	<b>121,133,326</b>

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>5. Receivables from exchange transactions (continued)</b>		
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	(641,816,861)	(522,427,485)
Contributions to allowance	(111,236,438)	(119,384,073)
Debt impairment written off against allowance	275,230	-
Reversal of allowance	-	(5,303)
	<b>(752,778,069)</b>	<b>(641,816,861)</b>

### Credit quality of receivables from exchange transactions

The credit quality of receivables from exchange transactions that are neither past nor due nor impaired can be assessed by reference to historical information about counterparty default rates.

None of the financial assets that are fully performing have been renegotiated in the last year.

### Receivables from exchange transactions past due but not impaired

Consumer debtors which are less than 3 months past due are not considered to be impaired. At 30 June 2018, R139 402 390 (2017: R 88 866 286) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	12,379,340	13,778,456
2 months past due	6,211,707	6,266,668
3 months past due	120,811,343	68,841,162

### Receivables from exchange transactions impaired

As of 30 June 2018, receivables from exchange transactions of R 752,778,069 (2017: R641 816 861) were impaired and provided for.

The ageing of the impairment is as follows:

3 to 6 months	15,365,045	12,978,749
Over 6 months	706,945,787	601,719,442

### 6. Receivables from exchange transactions long term

None of the receivables from non-exchange transactions was pledged as security by the municipality during the financial year.

The revenue only allocated to Statement of Performance when payment is done by the debtors. The ownership is only transferred to the occupant when the payment is made in full.

### Sale of Land

Current (0 - 30 days)	50,691	5,141
31 - 60 days	82,876	303,133
61 - 90 days	10,323	23,699
> 91 days	6,052,995	5,662,543
Housing provision	(6,196,885)	(5,994,516)
	<b>-</b>	<b>-</b>

### Credit quality of trade and other receivables

The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to historical information about counterparty default rates.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>6. Receivables from exchange transactions long term (continued)</b>		
None of the financial assets that are fully performing have been renegotiated in the last year.		
<b>7. Receivables from non - exchange transactions</b>		
Traffic fines	15,808,225	15,808,225
Deposits	1,926,115	1,799,798
Allowance for impairment	(178,415,928)	(140,314,598)
Prepaid electricity payments	4,128,615	3,465,894
Receivables	7,465,576	6,417,215
Sundry receivables	108,576,867	94,349,788
Rates	130,338,724	109,878,704
	<b>89,828,194</b>	<b>91,405,026</b>

None of the receivables from non-exchange transactions was pledged as security by the municipality during the financial year.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>7. Receivables from non - exchange transactions (continued)</b>		
<b>Credit quality of receivables from non - exchange transactions</b>		
The credit quality of trade and other receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to historical information about counterparty default rates.		
<b>Receivables from non - exchange transactions</b>		
<b>Rates</b>		
Current (0 -30 days)	9,302,723	96,242,912
31 - 60 days	5,578,122	4,945,408
61 - 90 days	14,678,639	2,798,629
> 91days	100,779,240	92,509,755
Less: Allowance for impairment	(74,586,168)	46,806,090
	<b>55,752,556</b>	<b>243,302,794</b>
<b>Summary of rates by customer classification</b>		
<b>Household consumers</b>		
Current (0 -30 days)	6,505,355	5,056,319
31 - 60 days	4,048,845	2,886,090
61 - 90 days	12,559,825	1,978,779
> 91days	88,838,566	66,392,149
	<b>111,952,591</b>	<b>76,313,337</b>
<b>Industrial and commercial consumers</b>		
Current (0 -30 days)	2,670,103	3,762,196
31 - 60 days	1,451,800	936,912
61 - 90 days	1,545,603	394,960
> 91days	9,195,376	10,071,599
	<b>14,862,882</b>	<b>15,165,667</b>
<b>National and provincial government</b>		
Current (0 -30 days)	128,190	91,402
31 - 60 days	77,477	48,886
61 - 90 days	573,211	29,833
> 91days	2,743,291	2,723,949
	<b>3,522,169</b>	<b>2,894,070</b>
<b>Total</b>		
Current (0 -30 days)	9,302,723	9,642,912
31 - 60 days	5,578,122	4,945,408
61 - 90 days	14,678,639	2,798,629
> 91days	100,779,240	93,345,290
Less: Allowance for impairment	(74,586,168)	(63,072,614)
	<b>55,752,556</b>	<b>47,659,625</b>
<b>Traffic Fines</b>		
Current (0 -30 days)	-	1,233,690
31 - 60 days	-	922,400
61 - 90 days	-	2,118,700
> 91days	15,808,225	11,533,435
Less: Allowance for impairment	(11,162,025)	(11,162,025)
	<b>4,646,200</b>	<b>4,646,200</b>

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>7. Receivables from non - exchange transactions (continued)</b>		
<b>Sundry receivables</b>		
Current (0 -30 days)	2,400,781	10,245,629
31 - 60 days	1,929,945	617,603
61 - 90 days	1,201,841	1,018,038
> 91 days	103,044,299	82,468,518
Less: Allowance for impairment	(92,667,735)	(66,079,959)
	<b>15,909,131</b>	<b>28,269,829</b>

None of the financial assets that are fully performing have been renegotiated in the last year.

### Receivables from non - exchange transactions past due but not impaired

Other receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2018, R 89 828 194 (2017: R91 405 026 -) were past due but not impaired.

2 months past due	6,858,083	1,018,038
3 months past due	56,154,094	82,468,518

### Reconciliation of provision for impairment of non-exchange receivables

Opening balance	(140,314,598)	(136,692,288)
Allowance for impairment of other receivable -reversal	-	5,808,871
Amounts written off as uncollectable -traffic fines	-	16,651,323
Allowance for impairment on traffic fines	-	(16,266,097)
Allowance for impairment on sundry debtors	(26,605,095)	-
Allowance for impairment on rates	(11,550,048)	(10,092,833)
Amounts written off as uncollectable	53,814	276,426
	<b>(178,415,927)</b>	<b>(140,314,598)</b>

### Receivables from non - exchange transactions impaired

As of 30 June 2018, other receivables from non-exchange transactions of R 178 415 927 (2017: R 140 314 598) were impaired and provided for.

3 to 6 months	11,947,883	3,816,667
Over 6 months	163,477,670	161,521,080

## 8. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	5,150	5,150
Bank balances	2,671,048	5,245,991
Short-term deposits	18,366,696	7,376,454
	<b>21,042,894</b>	<b>12,627,595</b>

Cash and cash equivalents held by the municipality that are not available for use by the municipality	1,672,391	7,583,751
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# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
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### 8. Cash and cash equivalents (continued)

Unspent grants

- Department of Co-operative Governance R 704 984 (2017: R 704 984)
- Department of Water and sanitation R 79 057 (2017: R 79 057)
- Department of Water and sanitation R 293 187 (2017: R 0)
- Department of Energy 2018 R510 480 (2017: R1 442 951)
- Public Works Program 2018 R84 773 (2017: R 0)
- Municipal Infrastructure Grant ( R90) (2017: R5 356 759)

### Cash and cash equivalents pledged as guarantees

Total financial assets pledged as collateral for Guarantee: Eskom as electricity deposit	990,000	990,000
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Total financial assets pledged as collateral for Guarantee:Post Office as postal deposit	80,000	80,000
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### The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2018	30 June 2017	30 June 2016	30 June 2018	30 June 2017	30 June 2016
Absa Bank Cheque Account	1,278,369	635,473	407,374	1,278,369	635,472	404,974
Absa Bank Revenue Account 520 0000 062	-	-	-	-	-	(3,188)
Standard Bank - current account (primary bank account) 24 034 786 2	6,228,940	4,988,001	4,592,175	1,401,477	4,610,519	1,335,591
Standard Bank - Revenue Account - 33 197 836 9	-	-	-	(8,798)	-	(513,535)
Absa Bank - Call Account 907 840 0708	402,455	1,154,993	1,915,309	1,055,309	1,154,993	1,915,309
Absa Bank - Call Account 907 840 0708	-	-	27,726	-	-	27,726
Absa Bank -Fixed deposit 20-7741-7824	62,772	-	-	-	-	-
Absa Bank -Fixed deposit 20-7741-7072	77,121	-	-	-	-	-
Standard Bank - Call deposit account 228 505 348 005	6,529,042	109,045	5,573,806	12,863,554	109,045	5,573,806
Standard Bank - Call deposit account - 228 505 348 007	6,658,318	323,807	129,530	323,806	323,806	129,530
Nedbank - Call deposit account -788 103 308 000060	11,954	1,073,095	73,095	1,461,328	1,073,095	73,095
Nedbank - Call deposit account -788 103 308 000074	42,128	-	-	-	-	-
Investec -Call account- 1100-523923	2,634,973	4,687,789	6,230,057	2,634,974	4,687,789	6,230,056
Rand merchant Bank CDS - DC02J00005	27,726	27,726	-	27,726	27,726	-
<b>Total</b>	<b>23,953,798</b>	<b>12,999,929</b>	<b>18,949,072</b>	<b>21,037,745</b>	<b>12,622,445</b>	<b>15,173,364</b>

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
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### 9. Investment property

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land and buildings	84,752,399	(560,462)	84,191,937	86,591,399	(537,442)	86,053,957

#### Reconciliation of investment property - 2018

	Opening balance	Transfers to inventories	Depreciation	Total
Land and buildings	86,053,957	(1,839,000)	(23,020)	84,191,937

#### Reconciliation of investment property - 2017

	Opening balance	Write off	Restatement of closing balance	Depreciation	Total
Land and buildings	86,389,336	(310,000)	(429)	(24,950)	86,053,957

#### Pledged as security

None of the above investment property have been pledged as security.

A register containing the information required by Section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

During the year no repairs and maintenance cost were incurred on investment property.

#### Amounts recognised in surplus or deficit

Rental revenue from investment property (Billing of Hostels)	4,497,020	3,527,400
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### 10. Property, plant and equipment

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Community assets - land and buildings	365,949,552	(61,363,700)	304,585,852	367,571,071	(58,341,968)	309,229,103
Furniture and office equipment	24,709,676	(20,316,074)	4,393,602	24,724,114	(18,309,313)	6,414,801
IT equipment	38,801,107	(29,828,564)	8,972,543	38,292,818	(25,978,348)	12,314,470
Infrastructure	1,854,197,272	(963,570,286)	890,626,986	1,866,210,964	(1,032,992,339)	833,218,625
Leased assets	11,019,755	(1,896,702)	9,123,053	11,019,753	(994,762)	10,024,991
Motor vehicles	40,285,491	(25,260,621)	15,024,870	39,196,342	(22,969,055)	16,227,287
Plant and machinery	18,319,362	(11,213,580)	7,105,782	16,501,787	(9,620,062)	6,881,725
<b>Total</b>	<b>2,353,282,215</b>	<b>(1,113,449,527)</b>	<b>1,239,832,688</b>	<b>2,363,516,849</b>	<b>(1,169,205,847)</b>	<b>1,194,311,002</b>

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand

### 10. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Additions through donations	Write off	WIP additions	Transfer to inventory	Depreciation	Total
Community assets - land and buildings	309,229,103	461,280	-	-	-	(2,082,799)	(3,021,732)	304,585,852
Furniture and office equipment	6,414,801	178,562	-	(23,884)	-	-	(2,175,877)	4,393,602
Infrastructure	833,218,625	73,183,557	12,709,990	(390,574)	11,093,871	-	(39,188,483)	890,626,986
Motor vehicles	16,227,287	596,470	1,825,617	(319,109)	-	-	(3,305,395)	15,024,870
Plant and machinery	6,881,725	542,582	1,347,848	(10,133)	-	-	(1,656,240)	7,105,782
IT equipment	12,314,470	599,965	-	(22,493)	-	-	(3,919,399)	8,972,543
Leased assets	10,024,991	-	-	-	-	-	(901,938)	9,123,053
	<b>1,194,311,002</b>	<b>75,562,416</b>	<b>15,883,455</b>	<b>(766,193)</b>	<b>11,093,871</b>	<b>(2,082,799)</b>	<b>(54,169,064)</b>	<b>1,239,832,688</b>

#### Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Additions through donations	Write off	Restatement of closing balance	Depreciation	Total
Community assets - land and buildings	311,552,676	4,403,441	2,187,901	(305,000)	(5,922,164)	(2,687,751)	309,229,103
Furniture and office equipment	5,657,067	60,813	-	(108,800)	(114,035)	919,756	6,414,801
Infrastructure	793,698,012	75,143,381	-	(354,500)	6,011,363	(41,279,631)	833,218,625
Motor vehicles	11,370,685	1,828,994	1,413,271	(306,964)	1,446,144	475,157	16,227,287
Plant and machinery	7,168,597	1,055,939	-	(50,504)	(590,820)	(701,487)	6,881,725
IT equipment	10,018,656	557,898	838,175	(49,496)	(830,059)	1,779,296	12,314,470
Lease assets	7,992,742	2,923,073	-	-	-	(890,824)	10,024,991
	<b>1,147,458,435</b>	<b>85,973,539</b>	<b>4,439,347</b>	<b>(1,175,264)</b>	<b>429</b>	<b>(42,385,484)</b>	<b>1,194,311,002</b>

#### Pledged as security

None of the above property, plant and equipment have been pledged as security, other than obligations under finance leases that are secured by lessor's charge over the leased assets - refer to note 15.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>10. Property, plant and equipment (continued)</b>		
<b>Assets subject to finance lease (net carrying amount)</b>		
Motor vehicles	8,994,187	9,241,705
Office equipment	887,541	783,286
	<b>9,881,728</b>	<b>10,024,991</b>
<b>Expenditure incurred to repair and maintain property, plant and equipment included in the statement of financial performance</b>		
Employee related costs	67,689,229	58,977,913
Contracted services	16,520,067	8,973,844
Inventory	6,368,013	9,794,329
	<b>90,577,309</b>	<b>77,746,086</b>

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

## 11. Intangible assets

	2018			2017		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	5,088,176	(1,603,505)	3,484,671	5,088,176	(666,891)	4,421,285

### Reconciliation of intangible assets - 2018

	Opening balance	Amortisation	Total
Computer software	4,421,285	(936,614)	3,484,671

### Reconciliation of intangible assets - 2017

	Opening balance	Additions through donations	Amortisation	Total
Computer software	317,626	4,224,855	(121,196)	4,421,285

### Pledged as security

None of the above intangible assets have been pledged as security.

A register containing the information required by Section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

## 12. Heritage assets

2018	2017
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# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R			2017 R		
<b>12. Heritage assets (continued)</b>						
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Historical area	561,000	-	561,000	561,001	-	561,001
Mayoral chain	1	-	1	-	-	-
<b>Total</b>	<b>561,001</b>	<b>-</b>	<b>561,001</b>	<b>561,001</b>	<b>-</b>	<b>561,001</b>

### Reconciliation of heritage assets 2018

	Opening balance	Reclassify	Total
Historical area	561,001	(1)	561,000
Other Mayoral chain	-	1	1
	<b>561,001</b>	<b>-</b>	<b>561,001</b>

### Reconciliation of heritage assets 2017

	Opening balance	Total
Historical areas	561,001	561,001

### Heritage assets which fair values cannot be reliably measured

This is soil used to manufacture bricks that were used to build the Union Buildings in Pretoria (Tshwane).

### Pledged as security

None of the above heritage assets have been pledged as security :

### 13. Payables from exchange transactions

Accrued bonus	5,090,243	4,637,802
Accrued expenses	104,377,871	110,009,765
Accrued leave pay	17,937,481	16,197,969
Eskom	29,870,978	38,734,074
Unallocated deposits	3,017,454	2,606,905
Insurance	1,248,816	1,056,563
Other payables Auditor General	12,482	-
Payments received in advance	25,141,907	15,930,899
Rand Water	11,833,750	11,135,456
Retentions	17,150,466	14,324,979
Trade payables	6,503,470	8,225,366
	<b>222,184,918</b>	<b>222,859,778</b>

### 14. VAT payable

Value added tax payable	3,182,649	6,232,497
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# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>15. Finance lease obligation</b>		
<b>Minimum lease payments due</b>		
- within one year	4,163,802	3,852,875
- in second to fifth year inclusive	7,999,524	11,211,156
	12,163,326	15,064,031
less: future finance charges	(1,729,936)	(2,698,615)
<b>Present value of minimum lease payments</b>	<b>10,433,390</b>	<b>12,365,416</b>
<b>Present value of minimum lease payments due</b>		
- within one year	3,257,767	2,727,836
- in second to fifth year inclusive	7,175,623	9,637,580
	<b>10,433,390</b>	<b>12,365,416</b>
Non-current liabilities	7,175,623	9,637,580
Current liabilities	3,257,767	2,727,836
	<b>10,433,390</b>	<b>12,365,416</b>

It is municipality policy to lease certain motor vehicles and equipment under finance leases.

The average lease terms were 3 and 5 years and the average effective borrowing rate was 10% (2017: 10%).

Interest rates are fixed at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

## 16. Operating lease liability

Current liabilities	(2,753,122)	(2,361,153)
<b>Government Garage</b>		
Opening balance	2,361,152	1,898,211
Movement for the year	391,970	462,941
	<b>2,753,122</b>	<b>2,361,152</b>
<b>Minimum lease payments due</b>		
-within one year	2,107,900	2,847,658
-in second to fifth year inclusive	52,384	1,909,720
	<b>2,160,284</b>	<b>4,757,378</b>

Operating lease - Government Garage

Operating lease payments represent rentals payable by the municipality for certain of its motor vehicles. Leases for motor vehicle are negotiated for an average of three years and rentals are fixed for the full term of the lease.

Operating lease - Abrahamsrust Resort

Operating lease payments represent rentals payable by the municipality for rental of property situated in Abrahamsrust. The municipality has a 50 year lease that expired on 31 March 2017 and a new lease has been entered into for a period of three years. The new agreement is from 1 April 2017 till 31 March 2019 and amounts to R1 per year.

## 17. Consumer deposits

Water and electricity	20,993,784	19,459,196
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# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>18. Unspent conditional grants and receipts</b>		
<b>Unspent conditional grants and receipts comprises of:</b>		
<b>Unspent conditional grants and receipts</b>		
Department of Co-operative Governance and Traditional Affairs	704,984	704,984
Department of Energy	510,480	1,442,951
Department of Water Free State	293,187	-
Extended Public Works Programme	84,773	-
Municipal Infrastructure Grant	(90)	5,356,759
Water Demand Management	79,057	79,057
	<b>1,672,391</b>	<b>7,583,751</b>

### Movement during the year

Balance at the beginning of the year	7,583,751	833,375
Additions during the year	238,640,976	216,392,751
Income recognition during the year	(244,552,336)	(209,642,375)
	<b>1,672,391</b>	<b>7,583,751</b>

See note 26 for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

### 19. Long term portion - long term loan

Development Bank of Southern Africa Limited - Non-current portion	1,634,939	3,136,825
Development Bank of Southern Africa Limited - Current portion	1,501,886	1,379,692

#### Terms and conditions

The original loan amount approved was R 19 000 000 but only R 9 000 000 was disbursed in 2012/2013 financial year.  
The interest on the loan is fixed at 8.67% with capitalisation every 6 months but will be 10.67% on arrear amounts.  
The interest and capital repayment is made every 6 months in 14 equal instalments of R 871 356 over 7 years.  
The loan is unsecured but the application of the loan is conditional to specific projects.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
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### 20. Employee benefit obligations

#### Defined benefit plan

#### Reconciliation of employee benefits obligation - 2018

	Opening Balance	Additions	Total
Employee benefit cost medical	27,293,577	1,993,053	29,286,630
Employee benefits long service awards	13,299,467	1,546,950	14,846,417
	<b>40,593,044</b>	<b>3,540,003</b>	<b>44,133,047</b>

#### Reconciliation of employee benefits obligation - 2017

	Opening Balance	Additions	Total
Employee benefit cost medical	25,140,278	2,153,299	27,293,577
Employee benefits long service awards	14,013,556	(714,089)	13,299,467
	<b>39,153,834</b>	<b>1,439,210</b>	<b>40,593,044</b>

#### Employee benefit cost obligation - medical

##### Carrying value

Present value of the defined benefit obligation-wholly unfunded	27,293,577	25,140,278
Present value of the defined benefit obligation-partly or wholly funded	399,902	456,192
Fair value of plan assets	2,446,487	2,214,237
Fair value of reimbursement rights	849,634	810,178
Expected Contributions	(1,702,970)	(1,327,308)
	<b>29,286,630</b>	<b>27,293,577</b>
Non-current liabilities	(40,725,557)	(37,016,968)
Current liabilities	(3,407,490)	(3,576,076)
	<b>(44,133,047)</b>	<b>(40,593,044)</b>

#### Continued Medical aid membership

Municipal employees contribute to accredited medical schemes.



# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
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### 20. Employee benefit obligations (continued)

The municipality offers employees and continuation members the opportunity of belonging to one of several medical aid schemes, most of which offer a range of options pertaining to levels of cover.

Upon retirement, an employee may continue membership of the medical scheme. Upon a member's death-in-service or death-in-retirement, the surviving dependants may continue membership of the medical scheme.

Members contribute according to tables of contribution rates which differentiate between them on the type and number of dependants. Some options also differentiate on the basis of income.

In-service members that were employed prior to 2001 are entitled to a post-employment medical aid subsidy of 60% of the contribution payable. All current continuation members receive a 60% subsidy.

Upon a member's death-in-service or death-in-retirement, the surviving dependants will continue to receive the same 60% subsidy.

The obligation in respect of medical care contributions for retirement benefits is valued every year by independent qualified actuaries.

An actuarial valuation has been performed of the municipality's liability in respect of benefits to eligible retirees and retired employees of the municipality. The provision is utilised when eligible employees receive the value of the vested benefits.

The Projected Unit Credit Method has been used to value the liabilities.

#### Accrued liability

##### Category of member

In - service members	9,644,734	9,315,745
Continuation member	19,641,896	17,977,832
<b>All members</b>		
Total liability	29,286,630	27,293,577
	<b>29,286,630</b>	<b>27,293,577</b>

Liabilities and experience adjustments are made. The table summarises the accrued liabilities and the plan assets for the current period and the previous period.

#### History of liabilities and assets

Present value of accrued liability	29,286,630	27,293,577
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The experience adjustments for the current period is summarised below. Experience adjustments are the effects of differences between the previous actuarial assumptions and what has actually occurred.

#### History of experience adjustments: Gains and losses

##### Experience adjustments

Liabilities: (gain) / loss	849,634	810,178
Assets: gain / (loss)	-	-
	<b>849,634</b>	<b>810,178</b>

#### Best estimate of benefits payments expected in next annual period

##### 2018/2019 (comparatives are for 2017/2018)

Opening accrued liability	29,286,630	27,293,577
Current service cost	381,625	399,902
Interest cost	2,632,763	2,446,487
Benefit vestings	(1,936,751)	(1,702,970)
<b>Total annual expense</b>	<b>30,364,267</b>	<b>28,436,996</b>

History of liabilities and assets (R millions)

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
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### 20. Employee benefit obligations (continued)

Liability History	30/06/2014	30/06/2015	30/06/2016	30/06/2017	30/06/2018
Accrued liability	24.076	25.989	25.140	27.294	29.287

### Key financial assumptions

The table summarises the financial assumption used.

Discount rates	9.29 %	9.25 %
Health care cost inflation rate	7.23 %	7.58 %
Net effective discount rate	1.92 %	1.55 %

The next contribution rate increase is assumed to occur at 1 January 2018.

Average retirement age	65
Continuation of membership at retirement	70%
Proportion assumed married at retirement	70%
Mortality during employment	SA 85-90
Mortality post-retirement	PA 90-1 ultimate

Withdrawal from service (sample annual rates)	Age	Females	Males
	20	24%	16%
	30	18%	12%
	40	10%	8%
	50	4%	4%
	>55	2%	2%

Number of in service members	47
Number of pensioners	44

### Summarised results of the sensitivity analysis.

#### Sensitivity analysis on the accrued liability (R Millions)

Assumption	Change	In-service	Continuation	Total	% change
Central assumptions		9.645	19.642	29.287	
Health care inflation	1%	10.153	20.284	30.438	4
	-1%	8.844	18.791	27.635	(6)
Post-retirement mortality	-1 yr	9.909	20.367	30.276	3
Average retirement age	-1 yr	10.306	19.642	29.945	2

Note: The post-retirement mortality adjustment assumes that someone aged 70 will experience the mortality of someone aged 69. The liability is expected to increase under this scenario because members are expected to live longer.

The table above indicates, for example, that if medical inflation is 1% greater than the long-term assumption made, the liability will be 4% higher than that shown.

### Long term service awards

Balance at beginning of the year	13,299,467	14,013,556
Current-service cost	1,687,032	1,813,650
Interest cost	1,037,468	1,126,312
Actuarial (gain) / loss	695,556	(2,230,149)
Employer benefit payments	(1,873,106)	(1,423,902)
	<b>14,846,417</b>	<b>13,299,467</b>

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>20. Employee benefit obligations (continued)</b>		
<b>Employer benefit payments</b>		
Value of long-service awards	14,620,350	13,086,284
Retirement gifts	226,067	213,183
	<b>14,846,417</b>	<b>13,299,467</b>
<b>Best estimate of benefits payments expected in next annual period</b>		
<b>2018/2019 (comparatives are for 2017/2018)</b>		
Opening accrued liability	14,846,417	13,299,467
Current service cost	1,771,282	1,687,032
Interest cost	1,195,058	1,037,468
Actuarial (Gain)/Loss	-	695,556
Benefit vesting	(1,470,739)	(1,873,106)
<b>Total annual expense</b>	<b>16,342,018</b>	<b>14,846,417</b>

### Long service awards

An actuarial valuation has been performed of the municipality's liability in respect of benefits to eligible employees of the municipality. The provision is utilised when eligible employees receive the value of the vested benefits.

	Female	Male	Total
Number of eligible employees	211	520	731
Average annual salary	204 476	191 541	195 275
Salary-weighted average age	45.2	45.8	45.6
Salary-weighted average past service	11.1	8.9	9.5

Metsimaholo Local Municipality offers employees long service awards for every 5 years of services completed. There are two policies in place.

Completed service (in years)	Long service bonuses % annual salary	Description
5	4.0%	$(5/250 + 2\%) \times \text{annual salary}$
10	7.0%	$(10/250 + 3\%) \times \text{annual salary}$
15	10.0%	$(15/250 + 4\%) \times \text{annual salary}$
20	11.0%	$(15/250 + 5\%) \times \text{annual salary}$
25,30,35,40,45	12.0%	$(15/250 + 6\%) \times \text{annual salary}$

733 Employees benefit from this policy

### Special leave pay

44 of the employees receive an additional six days of annual leave once they reach their five years of service.

### Retirement gifts

84 employees are entitled to receive a retirement gift of 2% of annual salary at retirement. Employees must have at least 20 years of service to be eligible for the benefit.

The Projected Unit Credit Method has been used to value the liabilities.

### Key Financial assumptions

The table summarised the financial assumptions used.

Discount rates	8.46 %	8.38 %
General Salary Inflation (long term)	6.09 %	6.20 %
Net effective discount rate	2.23 %	2.05 %

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
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### 20. Employee benefit obligations (continued)

The salaries used in the valuation include an assumed increase on 1 July 2017 of 7.12%.  
The next salary increase was assumed to take place in July 2018.

Average retirement age	65		
Mortality during employment	SA 85-90		
Withdrawal from service (sample annual rates)	Age	Females	Males
	20	24%	16%
	30	18%	12%
	40	10%	8%
	50	4%	4%
	>55	2%	2%

### Sensitivity analysis on the accrued liability (R Millions)

Assumption	Change	Liability	% change
Central assumptions		14.846	
General salary inflation	+1%	15.738	6%
	-1%	14.037	-5%
Average retirement age	-2 yrs	13.503	-9%
	+2 yrs	16.113	9%
Withdrawal rates	-50%	16.928	14%

The table above indicates, for example, that if salary inflation is 1% greater than the long-term assumption made, the liability will be 6% higher than that shown.

### History of liabilities and assets

	30/06/2014	30/06/2015	30/06/2016	30/06/2017	30/06/2018
Liability History					
Accrued Liability	15 818 226	15 537 619	14 013 556	13 299 467	14 846 417

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
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### 21. Provisions

#### Reconciliation of provisions - 2018

	Opening Balance	Additions	Total
Environmental rehabilitation	31,850,938	1,580,404	33,431,342

#### Reconciliation of provisions - 2017

	Opening Balance	Reduction due to re- measurement or settlement without cost to entity	Total
Environmental rehabilitation	49,618,678	(17,767,740)	31,850,938

#### Provision for landfill closure

The landfill rehabilitation and closure are created for the rehabilitation and closure of the current operational sites which are evaluated at each year-end to reflect the best estimate at reporting date. The sites under consideration are the Sasolburg, Oranjeville and Deneysville landfill sites. The valuation for the landfill sites were performed by Mrs Sandra Mutangadura from One Pangaea Financial CC. Mrs Mutangadura is a professional engineer and a member of the South African Institute of Civil Engineers (SAICE).

Key financial assumptions used in this calculation were as follows:

Assumption	Sasolburg landfill	Oranjeville landfill	Deneysville landfill
CPI	6.12%	6.12%	6.12%
Discount rate	9.60%	9.60%	9.60%
Net effective discount rate	3.63%	3.63%	3.63%

The 2018 amount of the discounted landfill closure provision of R33 431 342 represents a increase of R1 580 404 over the provision of R31 850 380 in the previous financial year. Composition of this change relate to changes in the CPI, discount rate and unit costs.

The 2018 amount is a discounted amount based on the expected remaining life of the landfill site and based on the size of the area that had been used for waste disposal as at 30 June 2018. The size of the landfill sites used up until now and estimate remaining useful lives are as follows:

	Sasolburg landfill	Oranjeville landfill	Deneysville landfill
Approximate size used until 30 June 2018	15.135 ha	1.273 ha	5.112 ha
Remaining useful lives	approximately 3 years	approximately 16 years	approximately 8 years

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>22. Service charges</b>		
Sale of electricity	261,352,493	251,742,095
Sale of water	321,161,123	230,671,611
Solid waste	30,149,761	28,834,186
Sewerage and sanitation charges	26,522,197	22,086,552
	<b>639,185,574</b>	<b>533,334,444</b>
<b>Forgone income (free portion)</b>		
Electricity	(4,918,588)	(6,374,068)
Sewerage and sanitation	(5,349,819)	(7,983,760)
Solid waste	(8,962,192)	(9,638,097)
Water	(9,727,805)	(25,349,662)
	<b>(28,958,404)</b>	<b>(49,345,587)</b>
<b>23. Operational revenue</b>		
Billboards	43,365	376,759
Building plan fees	583,093	243,703
Cemetery fees	408,568	502,209
Clearance certificates	541	324,135
Entrance fees	1,286,371	1,022,961
Lost library books	22	1,518
Private telephone calls	240,116	238,077
Sundry income	5,634,134	3,953,555
Fire services	612,798	449,307
	<b>8,809,008</b>	<b>7,112,224</b>
<b>24. Investment revenue</b>		
<b>Dividend revenue</b>		
Dividends	106,973	98,858
<b>Interest revenue</b>		
Interest received	3,535,282	2,129,812
	<b>3,642,255</b>	<b>2,228,670</b>
<b>25. Property rates</b>		
<b>Rates revenue</b>		
Commercial	10,766,176	10,547,254
Heavy Industries	29,559,856	31,782,029
Residential	89,134,324	82,358,569
Small holdings and farms	10,197,045	10,123,827
State	11,829,425	11,015,323
Less: Income forgone	(16,987,420)	(16,846,733)
	<b>134,499,406</b>	<b>128,980,269</b>

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>25. Property rates (continued)</b>		
<b>Valuations</b>		
5 year: Tax Holiday	33,747	35,763
Churches	97,425	108,010
Commercial	905,349	912,839
Heavy/light industries	975,810	937,635
Municipal	441,951	437,691
Public Benefit Organisation/Service Infrastructure	49,898	51,834
Residential	8,094,698	8,044,044
Small holdings and farms	2,993,361	2,974,530
State	688,496	687,996
Allocated, unregistered stands	208,126	228,696
	<b>14,488,861</b>	<b>14,419,038</b>

Valuations on land and buildings are performed every four years. The last general valuation came into effect on 1 July 2013. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions. The new general valuation will be implemented on 01 July 2018.

Rebates up to R35 000 (2017: R35 000) are granted to residential and state property owners.

Rates are levied on a monthly basis, except farmland that is levied on an annual basis. Interest at prime plus 1% per annum is levied on rates outstanding after due date for payment.

The following properties are exempted from property rates:

- Properties owned by a religious body or organisation and residential property occupied by a minister of religion in full time service of the church
- Road reserves
- Railway reserves

### Tariff structure (cents per Rand)

Business	0.01692	0.01590
Industries	0.04233	0.03978
Residential	0.00845	0.00794
State-owned property	0.01692	0.01590
<b>Farmland</b>		
Residential	0.00423	0.00397
Business	0.00845	0.00794
Industries	0.02119	0.01993
Private owned towns, Body Corporates/Sectional Titles	0.00423	0.00397
Mining	0.02121	0.01992
Agricultural	0.00212	0.00199

### 26. Transfers and subsidies

#### Operating grants

Equitable Share	142,708,999	125,968,334
Expanded Public Works Programme Intergrated Grant	915,227	1,060,000
Financial Management Grant	1,700,000	1,625,000
Government grant (operating) National Treasury - audit fees	1,828,112	-
Contribution COGTA	873,956	2,000,000
Government grant Municipal Infrastructure Grant	1,966,250	-
Government grant (operating) Auditor General	224,412	-
Sector Education Training Authority Grant	333,728	516,899
	<b>150,550,684</b>	<b>131,170,233</b>

#### Capital grants

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>26. Transfers and subsidies (continued)</b>		
Department of Energy Grant	9,490,470	16,956,125
Department of Water Affairs Grant	9,052,316	9,249,776
Regional Bulk Infrastructure	35,401,267	-
Municipal Infrastructure Grant	40,057,599	52,266,241
	<b>94,001,652</b>	<b>78,472,142</b>
	<b>244,552,336</b>	<b>209,642,375</b>

### Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	89,740,271	81,674,041
Unconditional grants received	142,708,999	125,968,334
	<b>232,449,270</b>	<b>207,642,375</b>

### Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

A Council Resolution was taken to use some of the grant for free basic services to residents. Equitable share is also used to allocate and basic sewer per month to all households. Indigent households are allocated 6kl of water, 50 kWh of electricity, additional sewer, refuse, and R50 per month on Rates.

### Financial Management Grant

Current-year receipts	1,700,000	1,625,000
Conditions met - transferred to revenue	(1,700,000)	(1,625,000)
	<b>-</b>	<b>-</b>

Conditions still to be met - remain liabilities (see note 18).

The municipality received the Financial Management Grant from National Treasury. It is used for capacity building and assistance to financial services to improve service delivery.

### Expanded Public Works Programme Integrated Grant

Balance unspent at beginning of year	-	49,334
Current-year receipts	1,000,000	1,060,000
Conditions met - transferred to revenue	(915,227)	(1,060,000)
Funds withheld by National Treasury	-	(49,334)
Unspent funds	(84,773)	-
	<b>-</b>	<b>-</b>

Conditions still to be met - remain liabilities (see note 18).

Appointment of workers on the Extended Public Works Program. The workers continue in July 2018 and were paid with the unspent remaining grant of 30 June 2018.



# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>26. Transfers and subsidies (continued)</b>		
<b>Municipal Infrastructure Grant</b>		
Balance unspent at beginning of year	5,356,759	-
Current-year receipts	36,667,000	57,623,000
Conditions met - transferred to revenue	(42,023,849)	(52,266,241)
	<b>(90)</b>	<b>5,356,759</b>
Conditions still to be met - remain liabilities (see note 18).		
Funds received for installation of infrastructure.		
<b>Department of Water Affairs Grant</b>		
Current-year receipts	9,345,503	9,249,776
Conditions met - transferred to revenue	(9,052,316)	(9,249,776)
	<b>293,187</b>	<b>-</b>
Conditions still to be met - remain liabilities (see note 18).		
The municipality received funds from the Department of Water Affairs for water purification.		
<b>Department of Energy Grant</b>		
Balance unspent at beginning of year	1,442,951	-
Current-year receipts	10,000,000	18,399,076
Conditions met - transferred to revenue	(9,490,470)	(16,956,125)
Withheld	(1,442,001)	-
	<b>510,480</b>	<b>1,442,951</b>
Conditions still to be met - remain liabilities (see note 18).		
Installation of electricity network and connections, Amelia, in the municipality's area, financed by the Department of Energy.		
<b>Department of Co operative and Traditional Affairs</b>		
Balance unspent at beginning of year	704,984	704,984
Conditions still to be met - remain liabilities (see note 18).		
Funds received for the installation of infrastructure.		
<b>Department of Co-operative Government and Traditional Affairs</b>		
Current-year receipts	873,955	2,000,000
Conditions met - transferred to revenue	(873,955)	(2,000,000)
	<b>-</b>	<b>-</b>
Grant from COGTA to pay a consultant that assisted the municipality.		

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>26. Transfers and subsidies (continued)</b>		
<b>Sector Education Training Authority Grant</b>		
Current-year receipts	333,728	516,899
Conditions met - transferred to revenue	(333,728)	(516,899)
	<u>-</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 18).

The municipality received funds from Sector Education Training Authority for excellence performance by human resources division. The funds must be utilised towards training. In the previous year the process in appointing service providers to provide training was delayed.

### Housing Development Agency

#### Water Demand Management (Free State Province)

Balance unspent at beginning of year	<u>79,057</u>	<u>79,057</u>
--------------------------------------	---------------	---------------

Conditions still to be met - remain liabilities (see note 18).

Grant from Free State Province to assist with water demand management.

### Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, (Act 53 of 2000), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

## 27. Public contributions and donations

Department of Sport, Arts and Culture (Library)	-	1,750,750
Rejuvenation	15,883,454	6,081,666
Public contributions and donations	-	2,582,537
	<u>15,883,454</u>	<u>10,414,953</u>

### Reconciliation of conditional contributions

Current-year receipts	15,883,454	10,414,953
Conditions met - transferred to revenue	(15,883,454)	(10,414,953)
	<u>-</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 18)

The following were donated by Sasol in the 2017/2018 financial year: Rapid Intervention vehicle(R1 604 279),Mobile unit (R221 338) , Emmision Testing machine (R450 196), equipment (R897 652), construction of Refenkgotso Road (1 988 989) and Heron Banks 8KV overhead line (10 721 000) .

The funds transferred in 2016/2017 were received from the Provincial Department of Sport, Arts and Culture for the payment of salaries for library staff. The following were donated in the 2016/2017 financial year: Computers were donated by SASOL to Financial Services (R 88 175). Two mobile maintenance units were donated by SASOL to Technical Services R 1 413 271). A new financial system was sponsored by SASOL (R 4 974 855). A creche in Refengkgotso was donated by Mission Point Trading 41 Pty (Ltd) and S.Bothma & son transport Pty (Ltd) ( R2 187 901).

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>28. Employee related costs</b>		
Basic	144,676,648	138,515,354
13th Cheques and other bonuses	11,408,721	11,250,782
Contribution post retirement	1,143,419	1,343,121
Defined contribution plans	24,524,190	23,253,762
Group Insurance	235,681	216,260
Housing benefits and allowances	3,674,052	1,207,565
Industrial council levy contributions	72,732	70,395
Leave pay accrual	983,626	2,475,750
Leave pay provision	2,191,953	1,860,491
Long-service awards	851,394	1,516,060
Medical aid - company contributions	17,692,419	16,025,861
Overtime payments	18,444,062	15,032,871
Standby allowance	3,365,902	3,046,334
UIF	1,282,856	1,262,218
Actuarial (gain)/loss	1,545,190	(1,419,971)
Acting allowances	2,046,366	1,879,083
Car allowance	16,266,374	15,003,799
Cell phone allowance	1,084,951	1,045,124
Uniforms and protective clothes	1,026,661	1,228,637
	<b>252,517,197</b>	<b>234,813,496</b>

### Remuneration of S M Molala - Municipal Manager

Annual Remuneration	1,564,752	1,674,635
Car Allowance	240,000	240,000
Contributions to UIF, Medical and Pension Funds	1,785	1,785
Travel, motor car,accomodation,subsistance and other allowances	-	2,396
Telephone allowance	36,000	36,000
Acting allowance to Directors	190,661	-
Entertainment allowance	118,112	38,081
	<b>2,151,310</b>	<b>1,992,897</b>

### Remuneration of A Lambat - Chief Financial Officer

Annual Remuneration	1,912,471	1,781,362
Car Allowance	24,000	24,000
Contributions to UIF, Medical and Pension Funds	1,785	1,785
Travel, motor car,accomodation,subsistance and other allowances	-	8,482
Telephone allowance	30,000	30,000
Entertainment	2,144	269
	<b>1,970,400</b>	<b>1,845,898</b>

### Remuneration of I S Mokgatle - Director Technical Service and Infrastructural Services

Annual Remuneration	938,639	1,049,149
Car Allowance	341,076	409,290
Contributions to UIF, Medical and Pension Funds	1,487	1,785
Telephone allowance	25,000	30,000
Leave Pay	207,251	-
Acting allowance by Managers	59,414	-
	<b>1,572,867</b>	<b>1,490,224</b>

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>28. Employee related costs (continued)</b>		
<b>Remuneration of M L M Maseola - Director Organisational Development and Corporate Services</b>		
Annual Remuneration	692,150	1,289,402
Car Allowance	60,000	120,000
Contributions to UIF, Medical and Pension Funds	892	1,785
Housing subsidy	60,000	120,000
Telephone allowance	15,000	30,000
Leave	172,207	-
Acting allowance by Managers	378,904	-
	<b>1,379,153</b>	<b>1,561,187</b>
<b>Remuneration of S J Lempe - Director Social Services</b>		
Annual Remuneration	863,221	1,206,064
Car Allowance	126,667	190,000
Contributions to UIF, Medical and Pension Funds	1,189	1,785
Housing subsidy	80,000	120,000
Transport claims	-	2,702
Telephone allowance	20,000	30,000
Leave	179,930	-
Acting allowance as Municipal Manager	-	13,870
Acting allowance by Managers	266,235	-
Entertainment allowance	-	5,335
	<b>1,537,242</b>	<b>1,569,756</b>
<b>Remuneration of S J Monyaki - Director Economic Development</b>		
Annual Remuneration	814,513	1,138,012
Car Allowance	180,000	270,000
Contributions to UIF, Medical and Pension Funds	1,189	1,785
Housing subsidy	66,667	100,000
Transport claims	-	8,766
Telephone allowance	20,000	30,000
Leave	23,018	-
Acting allowance as Municipal Manager	-	53,662
Acting allowance by Managers	226,936	-
Entertainment allowance	-	12,089
	<b>1,332,323</b>	<b>1,614,314</b>
Total Employee related cost	<b>262,460,492</b>	<b>244,887,772</b>

The remuneration of staff is within the upper limits of the SALGA Bargaining Council determinations.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>29. Remuneration of Councillors</b>		
Executive Mayor	470,281	793,561
Council Whip	362,847	596,338
Mayoral Committee Members	2,386,989	4,773,900
Speaker	384,333	640,449
Councillors	5,963,470	8,967,929
Administrator's allowance	428,890	-
	<b>9,996,810</b>	<b>15,772,177</b>

### Remuneration per councillor

#### Executive Mayor

Mahlaku BT (till 9 August 2016)	-	98,001
Hlasa R S (since 22 August 2016)	-	705,992
Tshongwe S L (from 21 December 2017)	470,281	-

#### Council Whip

Nyembe B V (Council Whip from 21 December 2017)	362,847	-
Makhoba KJ (Council Whip from 25 November 2015)	-	65,806
Radebe LW (Council Whip since 22 August 2016)	-	530,532

#### Mayoral Committee Members

Khonto MW (till 9 August 2016)	-	65,806
Kubheka NJ (till 9 August 2016)	-	65,806
Mabasa KT (till 9 August 2016 and 23 February 2017 to 30 June 2017)	-	279,981
Mabefu RJ (till 9 August 2016)	-	65,806
Radebe AN (till 9 August 2016)	-	65,806
Semonyo LS (till 9 August 2016 and from 28 January 2018)	296,494	65,806
Tshongwe SL (till 9 August 2016)	-	65,806
Mtshali NM (MAYCO member 25 November 2015 till 9 August 2016 and 4 March 2017 to 30 June 2017)	-	265,675
Mofokeng TH (22 August 2016 to 22 February 2017)	-	314,314
Mothibe MB (22 August 2016 to 22 February 2017)	-	314,314
Mohapi P (22 August 2016 to 22 February 2017)	-	314,314
Gaigher L (22 August 2016 to 22 February 2017)	-	314,314
Mothale SM (22 August 2016 to 22 February 2017)	-	314,314
Grobbelaar JJ (22 August 2016 to 22 February 2017)	-	314,314
Mthembu S (22 August 2016 to 30 June 2017)	-	530,532
Burger GS (22 August 2016 to 3 March 2017)	-	331,072
Mosia TE (23 February 2017 to 30 June 2017)	-	217,627
Mosokweni F (23 February 2017 to 30 June 2017; 18 January 2018)	296,494	214,175
Fisher L (23 February 2017 to 30 June 2017; 18 January 2018)	296,494	214,175
Mokoena NP (23 February 2017 to 30 June 2017; 18 January 2018)	296,494	214,175
Radebe TL (23 February 2017 to 30 June 2017)	-	214,175
Makhefu LA (from 18 January 2018)	296,494	-
Malindi MJ (from 18 January 2018)	296,494	-
Nyaku DJ (from 18 January 2018)	296,494	-
Poho MS (from 18 January 2018)	296,494	-

#### Speaker

Matena SZ (Speaker till 9 August 2016)	-	70,673
Du Plooy (Speaker since 22 August 2016)	-	569,776
Mabasa KT (Speaker from 21 December 2017)	384,333	-

#### Councillors

Barnard JJ (from 1 December 2017)	178,459	-
Burger GS (from 10 August 2016 MAYCO member 22 August 2016 to 3 March 2017; 1 December 2017)	178,459	97,405
Chebase LR (till 9 August 2016)	-	28,881
Coetzer FC (till 9 August 2016)	-	28,881
Du Plessis J (till 9 August 2016)	-	28,881

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>29. Remuneration of Councillors (continued)</b>		
Du Plooy (Speaker since 22 August 2016; 1 December 2017)	178,459	8,610
Du Toit T	178,459	270,331
Dywili NN (from 10 August 2016; 1 December 2017)	178,459	241,450
Fisher L (from 10 August 2016; MAYCO member from 23 February 2017 to 30 June 2017; 1 December 2017 and MAYCO member 128 January 2018)	46,800	146,556
Gaigher L (from 10 August 2016 and MAYCO member 22 August 2016 to 22 February 2017; 1 December 2017 to 31 March 2018)	101,967	102,607
Geyser JJ	-	270,331
Gouws EJ (from 10 August 2016)	-	241,450
Grobbelaar JJ (MAYCO member 22 August 2016 to 22 February 2017; 1 December 2017)	178,459	131,488
Hlasa R S (Executive Mayor since 22 August 2016 till 30 June 2017)	-	8,610
Khonto MW (MAYCO member till 9 August 2016 resigned as Councillor 8 December 2016)	-	89,871
Kobo SS (from 10 August 2016; 1 December 2017)	178,459	241,450
Kubheka NJ (MAYCO member Committee till 9 August 2016)	-	241,450
Khunou SB (till 9 August 2016)	-	28,881
Lelahla JM (till 9 August 2016)	-	28,881
Leotlela MG (from 1 December 2017)	178,459	-
Mabasa KT (MAYCO member till 9 August 2016 and from 23 February 2017 to 30 June 2017; 1 December 2017 Speaker from 21 December 2017)	-	146,556
Machafa MF (till 9 August 2016)	-	28,881
Madia RM (from 10 August 2016)	-	241,450
Mahlangu PJ (till 9 August 2016)	-	28,881
Mahlaela PM (from 1 December 2017)	178,459	-
Mahlaku BT (Executive Mayor till 9 August 2016)	-	241,450
Majadibodu KC (from 10 August 2016)	-	241,450
Makhata L (from 10 August 2016)	-	241,450
Makhefu L A (from 1 February 2017; 1 December 2017; MAYCO 18 January 2018)	46,800	112,115
Malindi MJ (1 December 2017; MAYCO 18 January 2018)	46,800	-
Mare AK	178,459	270,331
Maseko ME (from 1 December 2017)	178,459	-
Maseko VJ (till 9 August 2016)	-	28,881
Matena SZ (Speaker till 3 August 2016)	-	241,450
Mdola NL (till 9 August 2016)	-	28,881
Mofokeng D (from 10 August 2016)	-	241,450
Mofokeng SS (till 9 August 2016)	-	28,881
Mofokeng TH (from 10 August 2016 MAYCO member 22 August 2016 to 22 February 2017; 1 December 2017)	178,459	102,607
Mofokeng TJ (till 9 August 2016)	-	28,881
Mokoena DE (till 9 August 2016)	-	28,881
Mohapi P (from 10 August 2016 MAYCO member 22 August 2016 to 22 February 2017; 1 December 2017)	178,459	102,607
Mokoena MP (from 10 August 2016; 1 December 2017)	178,459	241,450
Mokoena NP (from 10 August 2016; MAYCO member from 23 February 2017 to 30 June 2017; 1 December 2017; MAYCO 18 January 2018)	46,800	146,556
Mokoena TS (from 1 December 2017)	178,459	-
Molawa M (from 10 August 2016; 1 December 2017; MPAC chairperson 25 January 2018)	326,829	241,450
Moolman HJ (till 9 August 2016)	-	28,881
Moreki S (till 9 August 2016)	-	28,881
Mosia MM (till 9 August 2016)	-	28,881
Mosia TE (Chairperson MPAC till 9 August 2016 and MAYCO member from 23 February 2017 to 30 June 2017)	-	210,503
Mosokweni F (from 10 August 2016; MAYCO member from 23 February 2017 to 30 June 2017; 1 December 2017; MAYCO member 18 January 2018)	46,800	146,556
Motaung TA (from 10 August 2016) MPAC chairperson from 28 September 2016; 1 December 2017)	178,459	491,654

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>29. Remuneration of Councillors (continued)</b>		
Mothibe MB (from 10 August 2016 MAYCO member 22 August 2016 to 22 February 2017 ;Resigned February 2017)	-	8,610
Motjeane S (from 10 August 2016) Ethics chairperson from 28 September 2016; 1 December 2017)	178,459	491,654
Mothale SM (from 10 August 2016 MAYCO member 22 August 2016 to 22 February 2017; 1 December 2017)	178,459	102,607
Motloutg TM (from 1 December 2017)	178,459	-
Mthembu S (from 10 August 2016 MAYCO member 22 August 2016 to 30 June 2017)	-	8,610
Mtshali NM (MAYCO member 25 November 2015 till 9 August 2016 and from 4 March 2017 to 30 June 2017; 1 December 2017)	178,459	154,987
Nhlapo LL (from 1 December 2017)	178,459	-
Nkheloane M (from 1 December 2017)	178,459	-
Nnune GB	178,459	-
Nnune MS	-	270,331
November N ( from 10 August 2016)	-	241,450
Nteso SJ (from 10 August 2016)	178,459	241,450
Nthebe MD (till 9 August 2016)	-	28,881
Ntoane MG (till 9 August 2016)	-	28,881
Nyaku DJ (1 December 2017; MAYCO member 18 January 2018)	46,800	-
Oswald DM (till 9 August 2016)	-	28,881
Poho MS (till 9 August 2016; 1 December 2017; MAYCO member 28 January 2018)	46,800	28,881
Rampala AM (till 9 August 2016)	-	28,881
Radebe LW (Council Whip since 22 August 2016 till 30 June 2017)	-	8,610
Radebe LW (Council Whip since 22 August 2016 till 30 June 2017)	-	146,556
Sejaki MN (till 9 August 2016)	-	28,881
Semonyo LS ( till 9 August 2016 ; 1 December 2017 MAYCO member 18 January 2018)	46,800	-
Soetsang TL (Council Whip till 31 October 2015; (till 9 August 2016)	-	28,881
Taats TJ (from 1 December 2017	178,459	-
Tamane MA (till 9 August 2016)	-	28,881
Telane MM (from 10 August 2016; 1 December 2017)	178,459	241,450
Tsotetsi L (from 10 August 2016)	178,459	241,450
Van der Merwe FJ (from 1 December 2017)	178,459	-
Van der Walt MC (till 9 August 2016)	-	28,881
Viljoen JD (till 30 June 2017)	-	270,331
Zwane ZJ (from 23 February 2017; 1 December 2017)	178,459	95,156
Administrator (1 July 2017 to 30 November 2017)	428,890	-
	<b>9,996,810</b>	<b>15,772,177</b>

The remuneration of the political office-bearers and councillors are within the upper limits as determined by the framework envisaged in Section 219 of the Constitution.

### 30. Depreciation and amortisation

Intangible assets	936,617	121,196
Investment property	23,020	24,950
Property, plant and equipment	54,169,062	42,385,483
	<b>55,128,699</b>	<b>42,531,629</b>

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>31. Finance costs</b>		
Non-current borrowings	363,019	475,478
Trade and other payables	2,096,198	907,967
Finance leases	1,250,550	1,243,172
Bank	314,172	548,801
	<b>4,023,939</b>	<b>3,175,418</b>

### 32. Debt impairment

Contributions to debt impairment allowance	149,391,582	140,049,611
Consumer debtors	111,236,438	119,384,074
Receivables from non-exchange transactions	38,155,144	20,665,537
	<b>149,391,582</b>	<b>140,049,611</b>

### 33. Bulk purchases

Electricity	206,554,078	202,158,748
Water	131,789,428	122,687,794
	<b>338,343,506</b>	<b>324,846,542</b>

2018	Total sales (units)	Less total purchases (units)	(Loss)/gain (units)	% loss on purchases	Rand value of loss at purchase price
Electricity	196,494,984	216,903,112	(19,598,127)	9 %	15,686,341
Water	15,194,362	17,150,919	(1,956,556)	11 %	16,307,842
	<b>211,689,346</b>	<b>234,054,031</b>	<b>(21,554,683)</b>		<b>31,994,183</b>
2017	Total sales (units)	Less total purchases (units)	(Loss)/gain (units)	% loss on purchases	Rand value of loss at purchase price
Electricity	203,883,464	212,558,246	(8,674,782)	(4)%	6,741,619
Water	13,352,412	18,188,555	(4,836,143)	(27)%	36,578,138
	<b>217,235,876</b>	<b>230,746,801</b>	<b>(13,510,925)</b>		<b>43,319,757</b>

Unaccounted consumption can be a result of:

- Distributions losses;
- Internal use that is not metered and not read;
- Illegal connections and theft.
- Supply to informal areas that have not yet been formalised.

### 34. Contracted services

#### Outsourced Services

Administrative and Support Staff	3,565,011	2,878,459
Cleaning Services	3,026,035	2,631,264
Connection/Dis-connection	1,035,395	1,309,619
Traffic Fines Management	508,898	1,501,971
Transport Services	195,007	91,891



# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>34. Contracted services (continued)</b>		
<b>Consultants and Professional Services</b>		
Business and Advisory	6,552,263	10,869,924
Infrastructure and Planning	575,322	-
Legal Cost	12,661,426	8,410,900
<b>Contractors</b>		
Artists and Performers	-	32,600
Catering Services	270,694	328,966
Employee Wellness	1,153	73,350
Maintenance of Buildings and Facilities	4,386,663	108,973
Maintenance of Equipment	9,188,207	157,019
Maintenance of Unspecified Assets	2,391,635	8,707,852
Traffic and Street Lights	292,373	-
Safeguard and Security	14,855,952	14,268,940
Sewerage Services	18,415,683	16,800,035
Stage and Sound Crew	19,750	448,346
	<b>77,941,467</b>	<b>68,620,109</b>
<b>35. Operating expenditure</b>		
Advertising	1,122,904	954,196
Auditors remuneration	6,406,051	6,326,106
Bank charges	553,154	466,655
Licence fees SAMRO	-	304,223
Commission paid	8,904,426	8,488,037
Entertainment	92,853	80,066
Hire	7,855,953	6,052,404
Insurance	2,718,368	2,441,079
IT expenses	3,344,307	5,133,876
Levies	2,130,748	2,001,366
Postage and courier	1,968,160	1,667,763
Printing and publications	9,163	59,452
Royalties and license fees	532,352	379,801
Subscriptions and membership fees	3,019,051	2,370,117
Telephone	2,269,722	2,254,651
Travel - local	1,542,139	1,568,209
Inventory consumables	14,033,632	18,033,915
Ward committee remuneration	1,103,000	567,565
Bursaries	318,139	208,129
Other expenses	518,826	39,934
	<b>58,442,948</b>	<b>59,397,544</b>

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>36. Cash generated from operations</b>		
Surplus	134,176,796	57,178,005
<b>Adjustments for:</b>		
Depreciation and amortisation	55,128,699	42,531,629
Loss/(gain) on sale of inventory	458,063	43,538
Loss/(gain) on inventory stands	85,000	471,000
Fair value adjustments	1,545,190	(1,419,971)
Loss on the write off/transfer of property, plant and equipment	167,568	371,024
Fair value shares	(242,994)	(204,724)
PPE and intangible assets donated	(15,883,455)	(8,664,203)
Debt impairment	149,391,582	140,049,611
Movements in operating lease assets and accruals	391,969	462,942
Movements in retirement benefit assets and liabilities	1,994,813	2,859,181
Movements in land fill closure provisions	1,580,404	(17,767,740)
Current leave and bonus accrual	43,863,495	10,767,579
<b>Changes in working capital:</b>		
Inventories	202,567	(421,386)
Receivables from exchange transactions long term	(5,904,130)	(1,865,836)
Receivables from exchange transactions	(217,205,915)	(146,556,781)
Payables from exchange transactions	(44,538,354)	(2,196,600)
VAT	(3,049,848)	(4,683,471)
Unspent conditional grants and receipts	(5,911,360)	6,750,376
Consumer deposits	1,534,588	1,432,203
	<b>97,784,678</b>	<b>79,136,376</b>

## 37. Financial instruments disclosure

### Categories of financial instruments

#### 2018

#### Financial assets

	At fair value	At amortised cost	Total
Other financial assets	3,230,858	-	3,230,858
Receivables from non - exchange transactions	-	89,828,194	89,828,194
Receivables from exchange transactions	-	196,428,617	196,428,617
Cash and cash equivalents	-	21,042,894	21,042,894
Other financial assets	-	30,641	30,641
	<b>3,230,858</b>	<b>307,330,346</b>	<b>310,561,204</b>

#### Financial liabilities

	At amortised cost	Total
Finance lease obligation	3,257,767	3,257,767
Operating lease liability	2,753,122	2,753,122
Payables from exchange transactions	222,184,917	222,184,917
Consumer deposits	20,993,784	20,993,784
Employee benefit obligation	3,407,490	3,407,490
Short term portion - long term loan	1,501,886	1,501,886
Unspent conditional grants	1,672,391	1,672,391
	<b>255,771,357</b>	<b>255,771,357</b>

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R	
<b>Financial instruments disclosure (continued)</b>			
<b>2017</b>			
<b>Financial assets</b>			
	At fair value	At amortised cost	Total
Receivables from exchange transactions	-	121,133,326	121,133,326
Cash and cash equivalents	-	12,627,595	12,627,595
Other financial assets	2,987,863	-	2,987,863
Receivables from non - exchange transactions	-	91,405,026	91,405,026
Other financial assets	-	30,641	30,641
	<b>2,987,863</b>	<b>225,196,588</b>	<b>228,184,451</b>
<b>Financial liabilities</b>			
		At amortised cost	Total
Payables from exchange transactions		222,859,778	222,859,778
Short term portion - long term loan		1,379,692	1,379,692
Operating lease liability		2,361,153	2,361,153
Consumer deposits		19,459,196	19,459,196
Employee benefit obligation		3,576,076	3,576,076
Unspent conditional grants		7,583,751	7,583,751
Finance lease obligation		2,727,836	2,727,836
		<b>259,947,482</b>	<b>259,947,482</b>
<b>38. Commitments</b>			
<b>Authorised capital expenditure</b>			
<b>Already contracted for but not provided for</b>			
• Property, plant and equipment		126,411,407	176,811,123
<b>Total capital commitments</b>			
Already contracted for but not provided for		126,411,407	176,811,123
<b>Authorised operational expenditure</b>			
<b>Already contracted for but not provided for</b>			
• Expenditure		3,926,985	10,123,807
<b>Total operational commitments</b>			
Already contracted for but not provided for		3,926,985	10,123,807
<b>Total commitments</b>			
<b>Total commitments</b>			
Authorised capital expenditure		126,411,407	176,811,123
Authorised operational expenditure		3,926,985	10,123,807
		<b>130,338,392</b>	<b>186,934,930</b>

This committed expenditure relates to contracts and will be financed by available bank facilities, accumulated surpluses, existing cash resources and funds internally generated.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>39. Contingencies</b>		
<b>Housing loans</b>		
Guarantees for housing loans to employees at financial institutions	-	30,161
<b>Various attorneys</b>		
Ukwazi Force CC / Metsimaholo Municipality	6,500,000	6,500,000
Nkadimeng & Mofokeng / Metsimaholo Municipality	100,000	100,000
Steven Murray & Associates	-	41,034
SAMRO NPC / Metsimaholo Municipality	714,957	714,957
Edge Forensic and Risk Consultants / Metsimaholo Municipality	1,899,703	1,899,704
Isak A van der Watt/Metsimaholo LM	47,265	-
J M Fusstenburg / Metsimaholo Municipality	16,519	19,680
A.G.A Transport Co (Pty)Ltd	-	45,435
C van Wynsgaard/Metsimaholo Municipality	-	9,124
Nkadimeng M R & Mofokeng M O / Metsimaholo Municipality	100,000	-
<b>Mkwanazi Melato Inc</b>		
Metsimaholo Municipality / I A van der Walt	-	58,000
Metsimaholo Municipality / J Schoultz	58,364	58,365
Dreyer Albertus JP /Metsimaholo Municipality	571,300	5,713,000
Metsimaholo Municipality / Saaïman R	100,000	100,000
Metsimaholo Municipality / Fouche Quinton	-	13,930
<b>Ponoane Attorneys</b>		
Ernest L Lehani / Metsimaholo Local Municipality	233,368	400,000
Erwee Andries / Metsimaholo Local Municipality	-	38,645
<b>Adolff Attorneys</b>		
Metsimaholo Municipality / Van der Vyver C	-	13,186
Metsimaholo Municipality / Van Zyl J	-	12,135
Metsimaholo Municipality / Calitz ACJ	-	11,182
<b>Internal Legal Division</b>		
Le Roux JM / Metsimaholo Local Municipality	12,937	18,937
	<b>10,354,413</b>	<b>15,797,475</b>

### Unlicensed landfill site

The municipality managed three landfill sites without the required licences in contravention of the National Environmental Management: Waste Act, 2008 (Act No. 59 of 2008). In terms of section 68(1) of the National Environmental Management: Waste Act, 2008 a fine of R10 million or imprisonment for a period not exceeding 10 years for any person convicted of the offence could be imposed. Furthermore, the municipality may be subject to legal action by other institutions or members of the public since unauthorised landfill sites are operated that could have an environmental, health or safety risk to the community

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>40. Related parties</b>		
Relationships		
Accounting Officer	Refer to accounting officer's report note	
Phepheng Lelahla JM	Grey Construction (Civil & Mechanical)	
Nthebe MD	Alaska One Enterprise (Pty) Ltd	
Maseko VJ	Living Fountains (Church)	
Grobbelaar JJ	In his footprints (Non-profitable Charity organisation)	
Soetsang T L	Nyakaza Mfazi Primary co-operative limited	
Mofokeng TJ	Asazi funeral parlour	
	Asazi Inn	
Mosia TE	Soxi Electronics and IT Centre	
Mahlangu PJ	Kgutlo Thako Funeral Services	
Radebe AN	Maitshokolla Cooperative	
Makhoba KJ	Paballo Ya Bomme	
Du Plessis J	SanJohan private trust (trustee)	
Viljoen JD	Principal of Vaalpark Primary School	
Mabefu RJ	Directorship: Skyho Sands	
Mosokweni F	Sibusisiwe (Pty) (Ltd) Construction	
Semonyo L S	MATLA Dynamics	
	Taxi Industry	
Nyembe B V	Victor's Comprehensive Development (PTY) LTD	
	Victor's Communications Entertainment	
Tshongwe SL	WHIPHOLD	
	Amaqusi-Amantimand Amahle Trading and Projects (PTY)(LTD)	
	Flavius Mareka TVET College -Ministerial appointee	
Molala SM	Afriscapes CC (Capacity building)	
Maseola M	Khumase CC (Construction and transport)	
	Wealthprosp(General Trading)	
Monyaki SJ	Raleoa Trading cc (Tourism retail)	
	Bold Moves 198 Pty (Ltd) (Properties, tourism, retail)	
Lambat A	New Redruth Motors CC	
	Roshgold Investment Holdings Limited	
	Roshgold Technologies Limited	
	Roshgold Ventures Limited	
	Roshmeadow Properties Limited	
	Top Share Equities (Pty) Ltd	
	Directorship: Albaraka Bank Limited	
Ndaba M D	MTN shares	
Post employment benefit plan for employees	Refer to note 19	
Members of key management	Refer to note 27	
Executive Council Members	Refer to note 28	

## 41. Prior period errors

Below is a summary of the total effect that the prior period errors, changes in accounting policies and reclassifications of comparatives had on the amounts previously disclosed in the annual financial statements, followed by a description of each individual prior period error with the amounts involved.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

			2018 R	2017 R
<b>41. Prior period errors (continued)</b>				
<b>Statement of financial performance</b>	Balance as previously reported	Prior period error	Reclassified (note 42)	Total
<b>Revenue</b>				
Service charges	524,105,868	(149,835)	9,378,411	533,334,444
Levies refuse dump yard	626,620	-	(626,620)	-
Rental of facilities and equipment	6,068,776	-	-	6,068,776
Interest received - trading	25,071,512	-	-	25,071,512
Interest received - investments	2,107,597	22,216	-	2,129,813
Dividends	98,858	-	-	98,858
Non- payment fees	5,601,620	-	(5,601,620)	-
Licence and permits	116,954	-	-	116,954
Fines	17,272,057	-	180,419	17,452,476
Connection fees	3,167,363	-	(3,167,363)	-
Property rates	128,980,269	-	-	128,980,269
Government grants and subsidies	209,642,375	-	-	209,642,375
Public contributions and donations	10,414,953	-	-	10,414,953
Operational Revenue	7,275,452	-	(163,227)	7,112,225
Income legal cost	3,593,305	-	-	3,593,305
	<b>944,143,579</b>	<b>(127,619)</b>	<b>-</b>	<b>944,015,960</b>
<b>Expenses</b>				
Employee related cost	(244,980,573)	(42,760)	135,561	(244,887,772)
Remuneration of councillors	(15,757,133)	(15,043)	-	(15,772,176)
Depreciation and amortisation	(39,336,244)	(3,195,385)	-	(42,531,629)
Debt Impairment	(140,049,611)	-	-	(140,049,611)
Finance cost	(3,175,419)	-	-	(3,175,419)
Repairs and maintenance	(18,129,239)	-	18,129,239	-
Bulk purchases	(324,861,874)	15,332	-	(324,846,542)
Contracted services	(31,384,039)	(1,218,245)	(36,017,825)	(68,620,109)
Operating expenditure	(77,786,839)	(783,702)	19,172,998	(59,397,543)
Operating Lease	(4,637,354)	(6,698)	-	(4,644,052)
	<b>(900,098,325)</b>	<b>(5,246,501)</b>	<b>1,419,973</b>	<b>(903,924,853)</b>
Gain/loss on disposal of assets	(1,876,969)	-	-	(1,876,969)
Actuarial gain / (loss)	1,419,971	-	(1,419,971)	-
Sale of stands (Loss on sale)	294,457	819,783	-	1,114,240
(Loss)/Gain on inventory	(19,020)	(24,517)	-	(43,537)
Fair value of listed equities	204,724	-	-	204,724
Library inventory transfer write-downs	(79,295)	-	-	(79,295)
Rehabilitation of land fill sites	17,767,740	-	-	17,767,740
	<b>17,711,608</b>	<b>795,266</b>	<b>(1,419,971)</b>	<b>17,086,903</b>
<b>Statement of financial position</b>	Balance as previously reported	Prior period error	Reclassification (note 42)	Total
<b>Current assets</b>				
Inventory	15,060,882	164,431	-	15,225,313
Receivables from exchange transactions	142,215,392	3,405,519	(24,487,585)	121,133,326
Receivables from non-exchange transactions	77,930,642	(11,013,201)	24,487,585	91,405,026
Cash and cash equivalents	12,627,595	-	-	12,627,595
Other financial assets	3,018,504	-	-	3,018,504
	<b>250,853,015</b>	<b>(7,443,251)</b>	<b>-</b>	<b>243,409,764</b>

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

			2018 R	2017 R
<b>41. Prior period errors (continued)</b>				
<b>Non-current assets</b>				
Investment property	86,054,386	-	(429)	86,053,957
Property, plant and equipment	1,197,505,958	(3,195,385)	429	1,194,311,002
Intangible assets	4,421,285	-	-	4,421,285
Heritage assets	561,001	-	-	561,001
	<b>1,288,542,630</b>	<b>(3,195,385)</b>	<b>-</b>	<b>1,285,347,245</b>
<b>Current liabilities</b>				
Operating lease liabilities	2,339,748	21,405	-	2,361,153
Finance lease liability	2,727,836	-	-	2,727,836
Payables from exchange transactions	221,585,738	1,274,040	-	222,859,778
VAT payable	6,234,447	(1,950)	-	6,232,497
Consumer deposits	19,459,196	-	-	19,459,196
Employee benefit obligations	-	-	3,576,076	3,576,076
Unspent conditional grants	7,583,751	-	-	7,583,751
Short term portion -Long term loan	1,379,692	-	-	1,379,692
	<b>261,310,408</b>	<b>1,293,495</b>	<b>3,576,076</b>	<b>266,179,979</b>
<b>Non-current liabilities</b>				
Long term loan	3,136,825	-	-	3,136,825
Finance lease obligation	9,637,580	-	-	9,637,580
Employee benefit obligations	40,593,044	-	(3,576,076)	37,016,968
Landfill closure provision	31,850,938	-	-	31,850,938
	<b>85,218,387</b>	<b>-</b>	<b>(3,576,076)</b>	<b>81,642,311</b>
<b>Net assets</b>				
Accumulated surplus - opening balance	1,192,866,850	(7,353,272)	-	1,185,513,578
(Surplus) / deficit for the year	-	(4,578,856)	-	(4,578,856)
	<b>1,192,866,850</b>	<b>(11,932,128)</b>	<b>-</b>	<b>1,180,934,722</b>
<b>1. Expenses not accrued in prior years</b>				
Some general expenses, bulk purchase, contracted services and operating leases were incorrectly accrued in 2015/2016 and 2016/2017 years. These have been corrected and the 2015/2016 amounts restated accordingly.				
<b>Statement of financial position</b>				
Adjustment against the opening accumulated surplus 1 July 2016			-	(258,406)
Increase in Payables			-	(1,328,457)
Decrease in Inventory			-	(1)
Increase in receivables from non exchange transactions			-	33,003
			<b>-</b>	<b>(1,553,861)</b>
<b>Statement of financial performance</b>				
Increase in general expenditure			-	350,947
Increase in contracted services			-	1,218,246
Decrease in bulk purchases			-	(15,332)
			<b>-</b>	<b>1,553,861</b>
<b>2. Debtor's revenue correction in the prior years</b>				
Correction of discounting of interest on debtors and profit on sale of land prior 2015/2016 year. These have been corrected and the 2015/2016 amounts restated accordingly.				

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>41. Prior period errors (continued)</b>		
<b>Statement of financial position</b>		
Adjustment against the opening accumulated surplus 1 July 2016	-	5,732,800
Decrease in receivables from non exchange transactions	-	(5,732,800)
Increase in long term receivables	-	819,783
	<u>-</u>	<u>819,783</u>
<b>Statement of financial performance</b>		
Increase on profit of sale of land	-	(819,783)
	<u>-</u>	<u>(819,783)</u>
3. Adjustment of repair and maintenance.		
Repair and maintenance were corrected in 2016/2017 and prior 2015/2016 financial year. These have been corrected and restated in 2016/2017 year accordingly.		
<b>Statement of financial position</b>		
Adjustment against the opening accumulated surplus 1 July 2016	-	124,481
Increase in inventory	-	188,949
Increase in payables	-	(752,883)
	<u>-</u>	<u>(439,453)</u>
<b>Statement of financial performance</b>		
Increase in repair and maintenance	-	439,453
	<u>-</u>	<u>439,453</u>
4. Adjustment of employee cost		
Salaries adjustments and Councillor's allowance were made for the 2015/2016 year and prior 2015/2016. These have been corrected and restated accordingly.		
<b>Statement of financial position</b>		
Adjustment against the opening accumulated surplus 1 July 2016	-	231,996
Decrease In payables	-	(320,653)
Increase in receivables from non exchange transactions	-	30,854
	<u>-</u>	<u>(57,803)</u>
<b>Statement of financial performance</b>		
Increase in employee benefits	-	42,760
Increase in Allowance of councillors	-	15,043
	<u>-</u>	<u>57,803</u>
5. Inventory balance corrected		
Stock written off have been corrected for 2016/2017 year. These have been corrected and the years have been restated accordingly.		
<b>Statement of financial position</b>		
Decrease in Inventory	-	(24,517)
	<u>-</u>	<u>(24,517)</u>
<b>Statement of financial performance</b>		
Increase in stock written off	-	24,517
	<u>-</u>	<u>24,517</u>
6. Service charges adjusted		



# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
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### 41. Prior period errors (continued)

It was identified that electricity billing as well as other income and interest on investments be adjusted in 2016/2017 and prior 2015/2016 financial year. These have been corrected and the electricity debtor and sundry debtors restated accordingly.

#### Statement of financial position

Adjustment against the opening accumulated surplus 1 July 2016	-	337,617
Decrease in receivables from non exchange transactions	-	(131,895)
Decrease in receivables from exchange transactions	-	(335,292)
Decrease in payables	-	1,951
	<u>-</u>	<u>(127,619)</u>

#### Statement of financial performance

Decrease in other income	-	151,617
Increase in interest on investments	-	(22,216)
Increase on electricity income	-	(1,782)
	<u>-</u>	<u>127,619</u>

### 7. Adjustment on consumer billing

Corrections were made on prior year billing, sundry debtors, sale of land and credit balances prior 2015/2016

#### Statement of financial position

Adjustment against the opening accumulated surplus 1 July 2016	-	501,596
Increase in receivables from exchange transactions	-	2,905,276
Increase in receivables from non current exchange transactions	-	683,188
Increase in payables	-	(13,253)
Decrease in receivables from non exchange transactions	-	(4,076,807)
	<u>-</u>	<u>-</u>

### 8. Fruitless and wasteful expenditure

Sheriff payment amended from R97 069 to R57 950, interest of Rand Water amended from R238 242 to R275 435 and interest for University of Free State added R84.

### 8. Depreciation

The calculation for depreciation as infrastructure -work in progress (electricity was completed).

#### Statement of financial position

Increase in accumulated depreciation	<u>-</u>	<u>(3,195,385)</u>
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#### Statement of financial performance

Increase in depreciation	<u>-</u>	<u>3,195,385</u>
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### 9. Fruitless Expenditure

MPAC adjusted the register by R22 649 for the 2009/2010 and R15 570 for the 2012/2013 financial year.

### 42. Change in estimate

#### Property, plant and equipment

No changes in the 2017/2018 financial year that related to previous years. The useful lives of some of the assets were amended during the financial year.

The change in the estimate of the useful lives were done after investigation that found that the assets are still in good condition and can be at least used for further two years. The difference in the depreciation for the current year is R549 937

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
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### 43. Comparative figures

Reclassification of certain accounts were made in order to comply with the requirements of Municipal Standard Chart of Accounts (mSCOA). The reclassifications have no impact on the net assets value of the municipality.

Sale of land has been reclassified from financial assets to non current assets :receivables from non exchange transactions .

Re-classification with the implementation of mSCOA classification done: employee cost, general expenditure,contracted services

Actuarial gains on employee benefits re-classified to Employee benefits

Finance charges divided in interest on bank overdraft and interest paid on overdue accounts

Connection charges, printing and stationery, pest control, stocks and materials and fuel and oil are re-classified to Consumables

Acting allowance reclassify from basic salary

Reclassify contracted services into different categories. Reclassify contract service -commission to general expenditure - commission.

Re classify Professional fees,legal fees, sewerage, valuation cost, medical expenses and training to contracted services.

Re-classify conference and seminars to Travel

Re -classify provisions done by libraries to other expenses

Re-classify repair and maintenance to contract services and Inventory consumables

Re-classify closing balances at 30 June 2017.

Re -classify rental of equipment to Hire

Re-classify public programme to contracted services

Re -classify levies refuse dump yard to solid waste

Re-classify non-payment fees to electricity

Re-classify connection fees to electricity,sewer and water

Re-classify entertainment of directors to employee benefits

Re-classify Investment property and Property Plant and equipment closing balance to opening balance of 1 July 2017

Re-classify services charges, other income and fines

Re-classify contract services and general expenditure

Re- classify portion of employee benefit obligation to current liabilities

The effects of the reclassification are set out in note 41.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

### Figures in Rand

#### 43. Comparative figures (continued)

##### Statement of financial position - extract

	Comparative figures previously reported	Reclassification	After reclassification
Other financial assets	3,018,504	-	3,018,504
Receivables from non - exchange transactions long term	-	6,131,110	6,131,110
Payables from exchange transactions	(221,585,738)	(6,131,110)	(227,716,848)
Receivables from non - exchange transactions long term	-	(819,782)	(819,782)
Receivables from non - exchange transactions	-	24,487,585	24,487,585
Payables from exchange transactions	221,585,738	(1,156,857)	220,428,881
Receivables from exchange transactions	142,215,392	(22,510,946)	119,704,446
Investment property	86,054,386	(429)	86,053,957
Property, plant and equipment - Buildings	81,130,876	(81,130,876)	-
Property, plant and equipment - Building work in progress	8,654,577	(8,654,577)	-
Property, plant and equipment Land work in progress	63,665	(63,665)	-
Property, plant and equipment Land	225,302,149	(225,302,149)	-
Property, plant and equipment Community assets	-	309,229,103	309,229,103
Property, plant and equipment Furniture and fixtures	6,528,836	(6,528,836)	-
Property, plant and equipment furniture and office equipment	-	6,414,801	6,414,801
Property, plant and equipment motor vehicle	14,781,143	1,446,144	16,227,287
Property, plant and equipment Office equipment	13,144,529	(13,144,529)	-
Property, plant and equipment IT equipment	-	12,314,470	12,314,470
Property, plant and equipment Plant and machinery	7,472,545	(590,820)	6,881,725
Property, plant and equipment Infrastructure work in progress	352,466,847	(352,466,847)	-
Property, plant and equipment Infrastructure	477,935,800	358,478,210	836,414,010
Current liability: employee benefit obligation	-	3,576,076	3,576,076
Non current liability: employee benefit obligation	40,593,044	(3,576,076)	37,016,968
<b>Total</b>	<b>1,459,362,293</b>	<b>-</b>	<b>1,459,362,293</b>

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

### Figures in Rand

#### 43. Comparative figures (continued)

##### Statement of financial performance - extract

	Comparative figures previously reported	Reclassification n	After reclassification
Employee related costs	(244,980,573)	(1,228,637)	(246,209,210)
Contracted services	(31,384,039)	(27,056,425)	(58,440,464)
General expenses	(77,786,839)	28,285,062	(49,501,777)
Actuarial gain/ (loss)	1,419,971	(1,419,971)	-
Employee benefits - actuarial gains	(244,980,573)	1,419,971	(243,560,602)
Finance cost: Trade and other payables	(1,456,772)	548,801	(907,971)
Finance cost: Bank overdraft	-	(548,801)	(548,801)
Connection charges to consumables	(1,116,928)	1,116,928	-
Printing and stationery to consumables	(519,507)	519,507	-
Pest control to consumables	(43,244)	43,244	-
Stock and materials to consumables	(1,103,617)	1,103,617	-
Fuel and oil to consumables	(5,665,167)	5,665,167	-
Consumables	-	(8,448,463)	(8,448,463)
Basic salary	(140,394,437)	1,873,083	(138,521,354)
Acting Allowance	-	(1,873,083)	(1,873,083)
Contract services other contractors	(17,163,609)	7,573,791	(9,589,818)
Operational expenditure Commission	-	(7,573,791)	(7,573,791)
Consulting and Professional fees	(16,188,767)	16,188,767	-
Contract service to consultants Business	-	(8,041,942)	(8,041,942)
Contract service to consultants Legal	-	(8,146,825)	(8,146,825)
Sewerage treatment	(16,890,035)	16,890,035	-
Contractors to outsourced: Sewerage	-	(16,890,035)	(16,890,035)
Valuation cost (title deed)	(111,884)	111,884	-
Contract service to consultants Business	-	(111,884)	(111,884)
Medical expenses	(73,350)	73,350	-
Contract service to consultants Business	-	(73,350)	(73,350)
Training	(1,456,180)	1,456,180	-
Contract service to consultants Business	-	(1,456,180)	(1,456,180)
Conference and seminars	(860,920)	860,920	-
Travel	(706,556)	(860,920)	(1,567,476)
Promotions	(7,660)	7,660	-
Other expenses	(599,838)	(7,660)	(607,498)
Repair and maintenance	(18,129,239)	18,129,239	-
Inventory consumables	-	(9,155,395)	(9,155,395)
Contractors - maintenance equipment	-	(157,019)	(157,019)
Contractors - maintenance buildings	-	(108,973)	(108,973)
Contractors - maintenance unspecified assets	-	(8,707,852)	(8,707,852)
Rental of equipment	(5,930,446)	5,930,446	-
Hire	-	(5,930,446)	(5,930,446)
Public programs	(886,544)	886,544	-
Contract Outsourced: transport	-	(151,789)	(151,789)
Contract:contractors Artist and performers	-	(32,600)	(32,600)
Contract:contractors Catering	-	(275,309)	(275,309)
Contract:contractors Stage and sound	-	(426,846)	(426,846)
Levies -refuse dump yard	626,620	(626,620)	-
Service charges -solid waste	28,375,375	626,620	29,001,995
Non payment fees	5,601,620	(5,601,620)	-
Service charges - electricity	-	5,601,620	5,601,620
Connection fees	3,167,363	(3,167,363)	-
Service charges - electricity	-	2,910,503	2,910,503
Service charges - sewer	-	30,657	30,657
Service charges - water	-	226,203	226,203
Entertainment	(135,840)	55,774	(80,066)

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

### Figures in Rand

#### 43. Comparative figures (continued)

Employee related cost - Municipal Manager - entertainment	-	(38,081)	(38,081)
Employee related cost - CFO - entertainment	-	(269)	(269)
Employee related cost - Director Social Services - entertainment	-	(5,335)	(5,335)
Employee related cost - Director LED- entertainment	-	(12,089)	(12,089)
Interest income -consumers	25,071,512	(4,275,948)	20,795,564
Interest income consumer rates	-	4,275,948	4,275,948
Other expenses	(599,838)	567,565	(32,273)
Ward committee remuneration	-	(567,565)	(567,565)
Service charges	524,105,868	(17,191)	524,088,677
Other income	7,275,452	(163,228)	7,112,224
Fines	17,272,057	180,419	17,452,476
Contract services	(31,384,039)	(15,259)	(31,399,298)
General expenditure	(77,786,839)	15,259	(77,771,580)
<b>Total</b>	<b>(325,427,442)</b>	<b>-</b>	<b>(325,427,442)</b>

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

### Figures in Rand

#### 44. Risk management

##### Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (cash flow interest rate risk), credit risk and liquidity risk.

##### Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

The table below analyses the municipality's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 30 June 2018	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Long term loan	1,501,886	1,634,939	-	-
Unspent conditional grants	1,672,391	-	-	-
Trade and other payables	222,184,917	-	-	-
Consumer deposits	20,993,784	-	-	-
Finance lease obligation	3,257,767	-	7,175,623	-
At 30 June 2017	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Consumer deposits	19,459,196	-	-	-
Finance lease obligation	2,727,836	-	9,637,580	-
Unspent conditional grants	7,583,751	-	-	-
Payables from exchange transactions	222,859,778	-	-	-
Other financial liabilities	1,379,692	-	3,136,825	-

##### Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and trade receivables. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by management.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2018	2017
Receivables from exchange transactions	196,428,617	121,133,326
Receivables from non - exchange transactions	89,828,194	91,405,026
Cash and cash equivalents	21,042,894	12,627,595
Other financial assets - short term	3,261,499	3,018,504

##### Market risk

##### Interest rate risk

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

### Figures in Rand

#### 44. Risk management (continued)

##### Price risk

The municipality is exposed to equity securities price risk because of investments held by the municipality and classified on the statement of financial position at fair value.

Post-tax surplus for the year would increase/decrease as a result of gains or losses on equity securities classified as at fair value through surplus or deficit. Other components of equity would increase/decrease as a result of gains or losses on equity securities classified as available-for-sale.

#### 45. Going concern

We draw attention to the fact that at 30 June 2018, the municipality had an accumulated surplus (deficit) of R 1,315,111,516 (2017: R1 180 934 720) and that the municipality's total assets exceed its liabilities by R 1,315,111,516 (2017: R1 180 934 720). The current assets exceeds the current liabilities by R 73 524 589. In 2017 the current liabilities exceeded current assets by R 19 194 138.

The municipality has experienced some financial difficulties, as indicated below:

not all suppliers were not paid within the legislative 30 days

The gross debtors book has grown from R 872 828 891 to R 1 79 545 410 at June 2018. The debt impairment provision has increased for the year by R 122 474 762 compared to R123 396 912 for the previous year. This is indicative of challenges in reducing the debtors book, requiring more stringent debt collection measures.;

The average payment level for the year was 78.9% compared to a budgeted collection level of 82

The municipality also faced challenges in meeting the minimum maintenance of Property Plant and Equipment as prescribed by National Treasury

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is the continued funding of capital expenditure through MIG, increased allocations of equitable share, including revenue enhancement and cost cutting and cost containment measures.

#### 46. Events after the reporting date

No events took place after the reporting date.

#### 47. Unauthorised expenditure

Opening balance	19,380,908	19,380,908
-----------------	------------	------------

Nothing noted for 2017/2018 financial year.

#### 48. Fruitless and wasteful expenditure

Opening balance	3,788,470	2,890,282
Incurred in the current year	2,255,167	898,188
Interest waived by Auditor General 2016/2017	(139,808)	-
Interest waived by Auditor General 2017/2018	(84,604)	-
	<u>5,819,225</u>	<u>3,788,470</u>

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

### Figures in Rand

#### 48. Fruitless and wasteful expenditure (continued)

##### Analysis of expenditure

Telkom- payment of telephone accounts. Interest charged on the late payment of accounts	9,138	11,089
Sheriff Sasolburg - payment of interest	153,620	57,950
Compensation Commissioner	-	82,231
Arbitration ward to employee	78,859	-
Auditor General - interest on late payment	138,430	161,554
Rand Water - interest on the late payment of water account	-	275,435
Edge Forensics - interest on late payment	269,361	-
ESKOM - interest paid on the late payments of electricity accounts	5,273	285,670
Free State Provincial Government - late payment of licence fees	-	18,973
Standard Bank Financing - interest on late payment	-	4,624
University of Free State - interest	-	87
Department of Water - interest on late payment	1,510,985	-
BCX - interest on late payment	35,660	-
SARS -interest on VAT	53,841	575
	<b>2,255,167</b>	<b>898,188</b>

#### 49. Irregular expenditure

Opening balance	241,672,119	227,253,976
Add: Irregular Expenditure - current year	12,946,562	18,302,949
Add: Restatement of 2015/2016 prior year irregular	-	1,697,619
Less: Investigated and found not to be irregular in 2015/2016	-	(5,582,425)
	<b>254,618,681</b>	<b>241,672,119</b>

##### Analysis of expenditure awaiting condonation per age classification

Unauthorised sole supplier	532,466	2,021,090
Tax clearance not submitted	-	1,304,727
Supplier not on the accredited prospective providers list and the listing requirements not met	-	256,592
Not submitting the minimum quotations for acquiring goods and services	911,596	3,822,535
No supporting documentation (payment vouchers and/or tender documentation)	-	2,018,954
Other	2,452,343	3,806,286
Contract / SLA expired ie exceeds three years, no valid approval for extension	9,050,156	1,202,766
Competitive bidding process not followed	-	1,495,141
Bid specifications did not specify the minimum threshold for local production and content as required by PPR9	-	1,621,874
2015/2016: Not submitting the minimum quotations for acquiring goods and services	-	1,248,167
2015/2016: No supporting documentation (payment vouchers and/or tender documentation)	-	449,452
Regulation 32 Non- compliance	-	752,984
	<b>12,946,561</b>	<b>20,000,568</b>



# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

### Figures in Rand

#### 50. Additional disclosure in terms of Municipal Finance Management Act

##### Contributions to organised local government (SALGA)

Current year subscription / fee	2,933,729	2,726,900
Amount paid - current year	(2,933,729)	(2,726,900)
	-	-

##### Audit fees

Opening balance	1,466,991	-
Current year subscription / fee	6,267,622	7,373,315
Amount paid - current year	(7,734,613)	(5,906,324)
	-	<b>1,466,991</b>

##### PAYE and UIF

Current year subscription / fee	41,440,057	38,049,143
Amount paid - current year	(41,440,057)	(38,049,143)
	-	-

##### Pension and medical aid deductions

Current year subscription / fee	66,081,804	60,292,927
Amount paid - current year	(66,081,804)	(60,292,927)
	-	-

##### VAT

The nett VAT output payable and VAT input receivable is shown in note 14.

All VAT returns have been submitted by the due date throughout the year.

##### Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2018:

30 June 2018	Outstanding more than 90 days R	Total R
Dywilli N N (Acc no 108921)	13,923	13,923
Kobo SS (Acc no 526816 )	17,371	17,371
Leotlela P R (Acc no 536637 and 592959)	18,978	18,978
Mohapi P (Acc no 569717)	2,880	2,880
Mahlaela M D (Acc no 108353)	977	977
Malindi M J (Acc no 566943 and 595729)	8,191	8,191
Mofokeng T H (Acc no 33750)	2,211	2,211
Maseko M E (Acc no 109049 and 590648)	43,277	43,277
Mokoena N (Acc no 596487, 791179,594135 and 611209)	49,988	49,988
Molawa J M (Acc no 564125)	554	554
Mothale S (Acc no 12921)	8,493	8,493
Mokoena P M (Acc no 553206)	5,622	5,622
Mokoena TS (Acc no 590215)	46,980	46,980
Mosokweni FD (Acc no 108066 3)	42,111	42,111
Motaung TA (Acc no 537934 and 595856)	9,422	9,422
Motjeane SM (Acc no 106180 )	46,379	46,379

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

### Figures in Rand

#### 50. Additional disclosure in terms of Municipal Finance Management Act (continued)

Mtshali B P (Acc no 103466)	30,641	30,641
Nkheloane N E (Acc no 108037 and 592910)	39,613	39,613
Nyembe V B (Acc no 569354)	12,412	12,412
Poho M S (Acc no 512681)	14,183	14,183
Semonyo L S (Acc no 830532)	5,465	5,465
Telane P (Acc no 512521)	38,272	38,272
Tsotetsi P (Acc no 511192)	30,840	30,840
	<b>488,783</b>	<b>488,783</b>

30 June 2017

	Outstanding more than 90 days R	Total R
Dywilli N (Acc no 108921 and 562734)	7,887	7,887
Fisher L (Acc no 554069 and 580028)	12,920	12,920
Hlasa S (Acc no 6012058)	58,116	58,116
Mohapi P (Acc no 569717)	2,220	2,220
Madia R (Acc no 570682)	500	500
Makhata L (Acc no 569911)	422	422
Mofokeng D (Acc no 536668 and 593307)	9,228	9,228
Mokoena NP (Acc no 565105 and 791179)	12,294	12,294
Molawa M (Acc no 106880 and 564125)	3,075	3,075
Mothale S (Acc no 12921)	2,022	2,022
Mokoena MP (Acc no 553206 and 568419)	4,706	4,706
Mosokweni FD (Acc no 108066 and 830353)	28,895	28,895
Motaung TA (Acc no 537934, 574795 and 595856)	7,732	7,732
Motjeane SM (Acc no 106180 and 562151)	22,666	22,666
Mtshali NM (Acc no 562315)	30,498	30,498
Kobo SS (Acc no 526816 and 830352)	11,534	11,534
Nteso JR (Acc no 103104)	81,044	81,044
Radebe TL (Acc no 567293)	17,267	17,267
November N (Acc no 511459)	126,180	126,180
Telane MM (Acc no 512521 and 566245)	29,180	29,180
Tsotetsi L (Acc no 511192)	24,444	24,444
	<b>492,830</b>	<b>492,830</b>

#### Supply chain management regulations

In terms of Section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Accounting Officer and noted by Council. The expenses incurred as listed hereunder have been condoned by the Accounting Officer.

#### Incident

Emergency	1,713,888	2,875,144
Information technology upgrade	-	1,259,664
Other	150,108	455,959
Accommodation	217,093	721,324
Exceptional/ impractical	2,055,760	-
Sole suppliers	315,794	1,262,157
	<b>4,452,643</b>	<b>6,574,248</b>

The full extent of the current year's deviations expenditure which could potentially result in irregular expenditure is still in the process of being determined.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

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### Figures in Rand

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#### 51. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations. The expenses incurred as listed hereunder have been approved by the Accounting Officer:

#### 52. Budget differences

##### Material differences between budget and actual amounts

1. Service charges - Electricity sales were less than the budgeted. Water restrictions contribute in lower revenue on water as well as certain areas that used water without they were billed. Lower income at from the dumping sites than budget.
2. Interest received - Interest on investments was increased in the adjustment budget based on prevailing circumstances.
3. Licences and permits - The money collected on licences and street trading was slightly more than the budget.
4. Fines - The fines allocated in terms of GRAP exceeded the budget. Not finalised due to system problems
5. Income legal cost - Less actions were taken against consumers than anticipated with the budget.
6. Property Rates - Assessment rates billed were less than budgeted.
7. Private Telephone Calls - Collection for telephone calls exceeded the budget due to better cost control.
8. Government grants and subsidies -less than the budget due to the donation for the sportscomplex did not materialised and with held of R8 million from he Municipal Infrastructure Grant.
9. Cemetery fees were less than budgeted.
10. Entrance fees at the facilities are less than budget due to the condition of the facilities.
11. The contribution for employee benefits was than anticipated and does not exceed the budget .
12. The councillors' actual expenditure lower than the budget as councillors did not receive the budget increase
13. Finance cost - Interest on overdue accounts were not budgeted for. The finance lease was not implemented in full due to non-delivery of vehicles
14. Lease rental on operating lease - Government Garage expenditure allocation in terms of mSCOA.
15. Water purchased lower than budgeted due to a refund from Rand Water
16. Computer services did not exceed the budget.
17. Provision for impairment exceeded the budget as the non-payment of consumers increase.
18. Due to high insurance claims the excess payments were higher .
19. Dividends on shares were not budgeted for.
20. Commission of electricity sales exceeded the budget as more consumers converted to pre-paid electricity meters and various levels of consumption.
21. Dividends on shares were not budgeted for.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

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### Figures in Rand

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#### 52. Budget differences (continued)

22. Not all the donations were made by the public for infrastructure that was part of the budget.

23. The insurance claims on electricity network were turned down, the cost for repairs were carried by the municipality.

24. The implementation of mSCOA resulted in over and under expenditure in contracted services and inventory.

#### 53. Auditors' remuneration

Fees	<u>6,406,051</u>	<u>6,326,106</u>
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**Metsimaholo Local Municipality**

**Appendix A**

June 2018

**Schedule of external loans as at 30 June 2018**

Loan Number	Redeemable	Balance at Friday, 30 June 2017	Received during the period	Redeemed written off during the period	Balance at Saturday, 30 June 2018	Carrying Value of Property, Plant & Equip Rand	Other Costs in accordance with the MFMA Rand
		Rand	Rand	Rand	Rand		
Loan Stock		-	-	-	-	-	-
Structured loans		-	-	-	-	-	-
Funding facility		-	-	-	-	-	-
<b>Development Bank of South Africa</b>							
Loan 61006825	9000000	4,516,517	-	1,379,692	3,136,825	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		<b>4,516,517</b>	<b>-</b>	<b>1,379,692</b>	<b>3,136,825</b>	<b>-</b>	<b>-</b>
Bonds		-	-	-	-	-	-
Other loans		-	-	-	-	-	-
<b>Lease liability</b>							
Standard Banh Finance Facility		12,365,417	943,029	2,875,055	10,433,391	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		<b>12,365,417</b>	<b>943,029</b>	<b>2,875,055</b>	<b>10,433,391</b>	<b>-</b>	<b>-</b>
Annuity loans		-	-	-	-	-	-
Government loans		-	-	-	-	-	-
<b>Total external loans</b>							

## June 2018

Loan Number	Redeemable	Balance at Friday, 30 June 2017	Received during the period	Redeemed written off during the period	Balance at Saturday, 30 June 2018	Carrying Value of Property, Plant & Equip Rand	Other Costs in accordance with the MFMA Rand
		Rand	Rand	Rand	Rand		
		-	-	-	-	-	-
		-	-	-	-	-	-
		4,516,517	-	1,379,692	3,136,825	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		12,365,417	943,029	2,875,055	10,433,391	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		16,881,934	943,029	4,254,747	13,570,216	-	-

**Metsimaholo Local Municipality**  
**Metsimaholo Local Municipality**  
**Appendix B**  
June 2018

**Analysis of property, plant and equipment as at 30 June 2018**  
**Cost/Revaluation** **Accumulated depreciation**

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
<b>Land and buildings</b>														
Land (Separate for AFS purposes)	225,365,815	-	-	-	-	-	225,365,815	-	-	-	-	-	-	225,365,815
Landfill Sites (Separate for AFS purposes)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Quarries (Separate for AFS purposes)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Buildings (Separate for AFS purposes)	14,735,475	-	-	-	-	-	14,735,475	(57,569,302)	-	-	-	-	(57,569,302)	(42,833,827)
	<b>240,101,290</b>	-	-	-	-	-	<b>240,101,290</b>	<b>(57,569,302)</b>	-	-	-	-	<b>(57,569,302)</b>	<b>182,531,988</b>
<b>Infrastructure</b>														
Roads, Pavements & Bridges	768,831,295	-	-	-	-	-	768,831,295	(518,624,800)	-	-	-	-	(518,624,800)	250,206,495
Storm water	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Generation	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transmission & Reticulation	317,971,574	-	-	-	-	-	317,971,574	(130,845,790)	-	-	-	-	(130,845,790)	187,125,784
Street lighting	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dams & Reservoirs	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Water purification	437,753,279	-	-	-	-	-	437,753,279	(278,125,543)	-	-	-	-	(278,125,543)	159,627,736
Reticulation	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reticulation	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sewerage purification	332,596,400	-	-	-	-	-	332,596,400	(102,127,869)	-	-	-	-	(102,127,869)	230,468,531
Transportation (Airports, Car Parks, Bus Terminals and Taxi Ranks)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Housing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Waste Management	85,719	-	-	-	-	-	85,719	(78,108)	-	-	-	-	(78,108)	7,611
Gas	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (fibre optic, WIFI infrastrucur)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other 1	3,724,169	-	-	-	-	-	3,724,169	(757,673)	-	-	-	-	(757,673)	2,966,496
	<b>1,860,962,436</b>	-	-	-	-	-	<b>1,860,962,436</b>	<b>(1,030,559,783)</b>	-	-	-	-	<b>(1,030,559,783)</b>	<b>830,402,653</b>
<b>Community Assets</b>														
Parks & gardens	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sportsfields and stadium	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Swimming pools	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Community halls	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Libraries	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Recreational facilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Clinics	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Museums & art galleries	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Social rental housing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cemeteries	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fire, safety & emergency	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Security and policing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Buses	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-

## June 2018

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**Metsimaholo Local Municipality**  
**Metsimaholo Local Municipality**  
**Appendix B**

Analysis of property, plant and equipment as at 30 June 2017	
Cost/Revaluation	Accumulated depreciation

	Opening Balance Rand	Additions  Rand	Disposals  Rand	Transfers  Rand	Revaluations  Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals  Rand	Transfers  Rand	Depreciation  Rand	Impairment loss  Rand	Closing Balance Rand	Carrying value Rand
Land and buildings														
Land (Separate for AFS purposes)	225,670,815	-	(305,000)	-	-	-	225,365,815	-	-	-	-	-	-	225,365,815
Landfill Sites (Separate for AFS purposes)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Quarries (Separate for AFS purposes)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Buildings (Separate for AFS purposes)	140,763,412	6,591,342	-	-	-	-	147,354,754	(54,881,551)	-	-	(2,687,751)	-	(57,569,302)	89,785,452
	366,434,227	6,591,342	(305,000)	-	-	-	372,720,569	(54,881,551)	-	-	(2,687,751)	-	(57,569,302)	315,151,267
Infrastructure														
Roads, Pavements & Bridges	724,255,422	44,575,853	-	-	-	-	768,831,275	(497,627,343)	-	-	(20,997,457)	-	(518,624,800)	250,206,475
Storm water	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Generation	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transmission & Reticulation	300,857,756	17,468,318	(354,500)	-	-	-	317,971,574	(124,153,631)	-	-	(6,692,159)	-	(130,845,790)	187,125,784
Street lighting	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dams & Reservoirs	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Water purification	437,753,279	-	-	-	-	-	437,753,279	(270,824,699)	-	-	(7,300,844)	-	(278,125,543)	159,627,736
Reticulation	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reticulation	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sewerage purification	316,901,704	15,694,696	-	-	-	-	332,596,400	(99,118,594)	-	-	(3,009,275)	-	(102,127,869)	230,468,531
Transportation (Airports, Car Parks, Bus Terminals and Taxi Ranks)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Housing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Waste Management	85,719	-	-	-	-	-	85,719	(74,303)	-	-	(3,805)	-	(78,108)	7,611
Gas	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (fibre optic, WIFI infrastrucutr)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other 1	3,724,169	-	-	-	-	-	3,724,169	(676,968)	-	-	(80,705)	-	(757,673)	2,966,496
	1,783,578,049	77,738,867	(354,500)	-	-	-	1,860,962,416	(992,475,538)	-	-	(38,084,245)	-	1,030,559,783)	830,402,633
Community Assets														
Parks & gardens	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sportsfields and stadium	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Swimming pools	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Community halls	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Libraries	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Recreational facilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Clinics	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Museums & art galleries	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Social rental housing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cemeteries	2,595,487	(2,595,487)	-	-	-	-	-	-	-	-	-	-	-	-
Fire, safety & emergency	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Security and policing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Buses	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	2,595,487	(2,595,487)	-	-	-	-	-	-	-	-	-	-	-	-

## June 2018

## Cost/Revaluation

## Heritage assets

Buildings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	561,001	-	-	-	-	-	561,001	-	-	-	-	-	-	561,001
	<b>561,001</b>	-	-	-	-	-	<b>561,001</b>	-	-	-	-	-	-	<b>561,001</b>

### Specialised vehicles

[illegible]

### Other assets

General vehicles	31,944,817	3,242,265	(1,686,711)	-	-	-	33,500,371	(20,574,130)	1,379,747	-	475,157	-	(18,719,226)	14,781,145
Plant & equipment	18,459,474	1,055,939	(357,487)	-	-	-	19,157,926	(11,290,876)	306,983	-	(701,487)	-	(11,685,380)	7,472,546
Computer Equipment	40,216,253	1,396,073	(545,269)	-	-	-	41,067,057	(30,197,597)	495,773	-	1,779,296	-	(27,922,528)	13,144,529
Computer Software (part of computer equipment)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Furniture & Fittings	26,168,400	60,813	(1,141,836)	-	-	-	25,087,377	(20,511,335)	1,033,035	-	919,756	-	(18,558,544)	6,528,833
Office Equipment	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Office Equipment - Leased	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Abattoirs	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Markets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Airports	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Security measures	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Civic land and buildings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other buildings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other land	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Bins and Containers	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Work in progress	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	8,096,680	2,923,073	-	-	-	-	11,019,753	(103,938)	-	-	(890,824)	-	(994,762)	10,024,991
Other Assets - Leased	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Surplus Assets - (Investment or Inventory)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Housing development	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	124,885,624	8,678,163	(3,731,303)	-	-	-	129,832,484	(82,677,876)	3,215,538	-	1,581,898	-	(77,880,440)	51,952,044

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**Metsimaholo Local Municipality**

**Appendix F**

**Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003**

June 2018

Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts					Quarterly Expenditure					Grants and Subsidies delayed / withheld					Reason for delay/withholding of funds	Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act	Reason for noncompliance
		Sep	Dec	Mar	Jun	Jun	Sep	Dec	Mar	Jun	Jun	Sep	Dec	Mar	Jun	Jun			
Local Government Financial Grant	National Treasury	1,700	-	-	-	-	205	148	86	1,261	-	-	-	-	-	-		Yes	
Regional Bulk Infrastructure Grant	National Treasury	13,672	4,339	10,181	7,210	-	13,672	4,339	10,181	-	-	-	-	-	-	-		Yes	
Expanded Public Works Programme Integrated Grant	National Treasury	250	-	750	-	-	227	226	230	232	-	-	-	-	-	-	Previous year funds	Yes	
Water Services Infrastructure Grant	National Treasury	7,500	1,845	-	-	-	-	-	-	9,052	-	-	-	-	-	-	Previous year funds	Yes	
Municipal Infrastructure Grant	National Treasury	13,083	14,854	-	8,730	-	4,556	7,383	3,923	20,805	-	-	-	-	-	-		Yes	
Integrated National electrification programme Grant	National Treasury	10,000	-	-	-	-	-	-	966	8,524	-	-	-	-	-	-		Yes	
Equitable Share	National Treasury	59,463	46,127	35,677	-	-	-	-	-	-	-	-	1,442	-	-	-		Yes	
SETA	LGSETA	-	193	68	73	-	-	193	68	73	-	-	-	-	-	-			
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
		05,668	67,358	46,676	16,013	-	18,660	12,289	15,454	39,947	-	-	1,442	-	-	-			

Note: A municipality should provide additional information on how a grant was spent per Vote. This excludes allocations from the Equitable Share.